

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

BOARD	
30 May 2023	
Report Title:	ICB and ICS Financial Plan 2023/24
Purpose of report	
<p>This paper presents the final financial plan for both the ICB and wider ICS for 2023/24, including a summary of changes made since the draft plan that was presented to the Board previously.</p> <p>Following discussion and agreement at the Board Development session on 25 April 2023, delegated authority was given to the Executive Director of Finance and Chief Executive to make any final amendments to the plan as necessary. The final plan was submitted to NHS England on 4 May 2023 and is presented here for formal approval.</p>	
Key points	
<p>Financial and contracting guidance for 2023/24, together with financial allocations, were published by NHS England in January 2023. Draft financial plans were submitted in February 2023 with final plans originally due to be submitted by 30 March 2023. Given the significant financial gap shown in many plans, a further plan submission is now due by 4 May 2023.</p> <p>Final plans must be signed off by the ICB and partner Foundation Trust boards. The Board is also required to approve financial budgets although this is not currently possible until NHS England accepts the planned financial position.</p> <p>2023/24 financial allocations are summarised in the paper. Further detail around financial allocations were included in the paper to Board on 28 March 2023 and has not been replicated in full here. The NENC ICB receives the lowest percentage growth funding in England (5.03%) compared to a national average of 5.28%, due to being over target allocation and having a lower population growth. This equates to a reduction of £14m in growth funding.</p> <p>The 2022/23 financial position across the ICS includes significant non-recurring benefits. The non recurrent nature of these savings, together with unfunded pressures and lower than average growth funding in NENC, contributes to a substantial financial challenge to develop balanced plans for 2023/24.</p> <p>As in 2022/23, there are a number of key financial duties to comply with, including in particular:</p>	

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- The ICB to deliver at least a breakeven revenue position overall and manage running costs within the running cost allowance
- A collective responsibility for the system to deliver a balanced revenue financial position
- A collective duty to manage capital spend within capital resource limits

The final submitted financial plan for the ICB for 2023/24 shows a surplus position of £32.4m. This includes non recurrent slippage on a number of allocations which then offsets a planned deficit on the FT side of the ICS. Achievement of this target includes a significant efficiency challenge and significant potential risks to delivery however these efficiencies are critical to the longer-term financial sustainability of the ICB.

The increase in the ICB surplus position since March 2023 includes anticipated benefits from SDF funding, further potential slippage on commissioning budgets and assumed additional Elective Recovery Funding (ERF) from NHSE based on planned activity levels.

The ICB position includes certain 'system adjustments' held at ICB level at present but further work will be required in due course to appropriately reflect funding/income in relevant organisations.

The ICB position includes significant unfunded pressures, including excess inflation costs over and above funded levels, of £55m. This largely relates to expected fee increases on continuing healthcare and s117 packages, prescribing cost concessions impact, a recurring deficit on delegated primary medical care allocations, and expected property charge increases.

These unfunded pressures, together with significant recurring pressures within the underlying 2022/23 position have been largely mitigated in the 2023/24 plan through a range of non-recurring measures and stretch efficiency targets. This will be extremely challenging to achieve and present a highly increased level of potential risk to delivery of the plan which is highlighted within the paper.

The ICB plan assumes efficiencies of £94.9m in total, which is materially higher than that delivered in 2022/23 (£48.5m). All contingency reserves and uncommitted budgets have been released resulting in limited potential mitigations at this time should risks materialise in year.

The final overall ICS position is a deficit plan of £49.9m (0.7% of funding).

This is a further material reduction from the plan submitted in March 2023, reflecting continued intensive work across the ICS to review organisational plans, supported by NHS England. The latest position includes a range of additional recurrent and non-recurring measures and actions to reduce the deficit as far as possible.

Actions taken include review and reduction of pay cost growth in line with NHS England expectation of a maximum of 2.1% growth, review of investments and non-recurring opportunities and further stretch efficiencies.

Whilst these actions have supported a material reduction in the planned deficit, they also add to the risk associated with delivery of the plan, both financial and non-financial.

Contributing to the deficit in the overall ICS plan are unfunded pressures totaling £116m. This includes the £55m ICB costs above, along with a further £60m of excess inflationary pressures in provider trusts, comprising energy costs, PFI costs and inflation uplifts on a number of other non-pay contracts which are significantly in excess of the NHS tariff cost uplift factor. Discussions continue with NHSE in relation to excess inflation pressures.

Total efficiencies included within the financial plan across provider trusts amount to £313.4m, with average efficiency of 4.5%, which is higher than that delivered in 2022/23 and represents a

potential financial risk to delivery of plans. For perspective - traditionally a level of up to 3% would be seen as realistic but challenging.

Total capital funding allocation for 2023/24 amounts to £213.9m (£208.4m provider capital and £5.5m ICB capital allocation). As in 2022/23 the provider capital allocation is effectively delegated to the Provider Collaborative to manage. The allocation of capital funding is included within the paper, in line with the total funding allocation. This has increased by £10m from the position presented on 28 March 2023 following an additional capital allocation relating to required remedial works at one provider trust building.

The financial plan was submitted to NHSE on 4 May 2023 following agreement by the Executive Director and Finance and Chief Executive under delegated authority.

Discussions have now commenced with partners across the ICS around the development of a medium term financial plan and strategy to address underlying recurring deficits across the system.

Risks and issues

The 2022/23 financial position across the ICS included significant non-recurring benefits, which will present a major financial challenge to develop a balanced plan for 2023/24.

The overall ICS net financial risk reported within the plan now amounts to £102.5m, however this also includes a large number of mitigations yet to be identified. Excluding these, total unmitigated risk amounts to just less than £252m. Risks and mitigations will continue to be reviewed across the system with an aim to reduce and further mitigate risks as far as possible during the year.

Total unmitigated risk in the plan submitted on 30 March 2023 amounted to £190m. The material increase in the latest figures reflects the additional risk introduced by actions taken to reduce the planned deficit.

Total risks in the plan include material potential risks around additional inflationary cost pressures together with risks around the delivery of required efficiency savings.

Timescales for updating the financial plans have been exceptionally challenging and a number of actions have been taken and assumptions made in order to materially change the overall deficit position. The scale of the movements leads to an inevitable increase in risk in delivery the plan and the pace of change at which this work is being undertaken further increases the potential level of risk.

Assurances

Significant work has been undertaken to review plans across the system with progress made in materially reducing the planned deficit since initial draft plans were developed.

The ICS NHS Directors of Finance have been meeting on at least a weekly basis to oversee production of draft plans, with at least weekly discussions with ICS Chief Executives.

Regular updates have been provided to the Finance, Performance and Investment Committee with the plans presented to Board prior to final submission. The final provider plans have also been approved by all provider trusts within the ICS.

Recommendation/action Required

The Board is asked to:

- approve the final ICB and ICS financial plan for 2023/24, including those contracts which are above £30m as per appendix 1.

Acronyms and abbreviations explained

1. NENC ICB – NHS North East and North Cumbria Integrated Care Board
2. ICS – Integrated Care System
3. NHSE – NHS England
4. GDP – gross domestic product
5. SDF – service development funding
6. ERF – elective recovery fund
7. BCF – better care fund
8. UEC – urgent and emergency care
9. API – aligned payment and incentive
10. NHSPS – NHS payment scheme
11. LVA – low volume activity
12. GP – general practice
13. CYP – children and young people
14. IT – information technology
15. PDC – public dividend capital
16. RDEL – Resource Departmental Expenditure Limit
17. CDEL – Capital Departmental Expenditure Limit
18. DHSC – Department of Health and Social Care
19. CUF – cost uplift factor
20. CNST – clinical negligence scheme for trusts
21. AfC – agenda for change
22. VSM – very senior manager
23. PFI – private finance initiative
24. POD – Pharmacy, Ophthalmic and Dental
25. FT – NHS Foundation Trust

Sponsor/approving director	David Chandler, Executive Director of Finance
Date approved by executive director	17/05/2023
Report author	Richard Henderson, Director of Finance (Corporate)

Link to ICB corporate aims (please tick all that apply)

CA1: Improve outcomes in population health and healthcare	
CA2: tackle inequalities in outcomes, experience, and access	
CA3: Enhance productivity and value for money	✓
CA4: Help the NHS support broader social and economic development	

Relevant legal/statutory issues

Health and Care Act 2022

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

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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	11/05/2023	Richard Henderson	Updated from April Board Development report
2.0	16/05/2023	Richard Henderson	Over £30m BCF values updated
3.0	17/05/2023	DC	Final Approved

NHS North East and North Cumbria Integrated Care Board Financial Plan and Budgets 2023/24

Purpose of paper

1. This paper provides a summary of the financial allocations for 2023/24 together with the latest updated financial plan for both the ICB and wider ICS for 2023/24, including key assumptions made and potential financial risks. The paper summarises changes to the plans since those presented to Board on 28 March 2023.
2. The structure of the paper is as follows:
 - PART A – Introduction and context
 - PART B – Revenue allocations
 - PART C – Finance business rules
 - PART D – Planning approach and key assumptions
 - PART E – ICB financial plan and budgets
 - PART F – ICS financial plan
 - PART G – Key financial risks
 - PART H – Capital plan
 - PART I – Next steps and timeline

PART A – Introduction and context

3. The draft financial plan and budgets 2023/24 paper to Board on 28 March 2023 provided a summary of the planning guidance and financial allocations for 2023/24, along with detail of the draft financial plan for the ICB and wider ICS.
4. The contextual information and full detail around financial allocations has not been replicated within this paper. A summary of revenue allocations is included in Part B and updates on the latest financial plan values and changes since the draft numbers presented on 28 March 2023 are included.
5. As a reminder to Board, it is important to highlight that the 2022/23 financial position includes significant non-recurring efficiencies and benefits across both the ICB and provider trusts, including additional non-recurring funding from NHS England.
6. As well as the additional non-recurring funding received during 2022/23, significant non-recurring benefits have been realised across the ICS which has helped to mitigate substantial recurring financial pressures. This includes both one-off benefits and non-recurring delivery of efficiency programmes for example. Latest

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forecasts show 68% of total efficiency programmes across the ICS (£164m) have been delivered on a non-recurring basis.

7. The non-recurring nature of these savings contributes to a significant financial challenge to develop balanced plans for 2023/24.

PART B – Revenue allocations

North East and North Cumbria (NENC) ICB financial settlement

8. The majority of the NHS revenue allocations for ICBs for 2023/24 have been published. The table below summarises the latest total confirmed ICB revenue allocations for 2023/24:

Recurrent allocations	£m
Core programme	5,847.1
Delegated Primary Care	574.4
Running Costs	57.4
Covid Funding	24.8
Additional Discharge Allocation	14.2
Additional Physical and virtual capacity funding	17.8
Recurrent allocations	6,535.6

Non-recurrent allocations	£m
Elective Recovery Funding	140.2
COVID-19 Testing	8.7
Service Development Fund (SDF)	112.2
Ambulance capacity funding	8.6
UEC capacity funding	13.0
Total non-Recurrent allocation	282.7

Total NENC ICB Allocation	6,818.4
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POD Delegation	344.5
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Total Expected Allocation including Primary Pharmacy, Ophthalmic and Dental (POD) Budgets	7,162.9
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9. Further detail around the make-up of the specific funding allocations was included in the paper presented on 28 March 2023 and this has not been replicated in full here.
10. There are three changes to the funding allocations shown above compared to those outlined previously:

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- National Service Development Funding (SDF) allocation increased from £95.4m to £112.2. This is mainly additional notified SDF for Cancer and Long Covid,
- Ambulance capacity funding notified of £8.6m (indicative),
- Urgent Emergency Care (UEC) capacity funding notified of £13m (indicative).

11. As previously highlighted, NENC ICB is deemed to be receiving more funding than its target allocation. As a result, the ICB receives than lower growth funding than the national average (equating to a reduction in growth funding of c£14m) and a higher convergence adjustment. The convergence adjustment is intended to reduce overall resource consumption to funded levels and move ICBs towards a fair share funding distribution.

PART C – Finance Business Rules

ICB and System Finance Business Rules

12. The ICB and System finance business rules for 2023/24 are summarised in the table below:

Rule	ICB	System
Capital resource use		Collective duty to act with a view to ensuring that the capital resource use limit set by NHS England is not exceeded
Revenue resource use	Duty to meet the resource use requirement set by NHS England	Collective duty to act with a view to ensuring that the revenue resource use limit set by NHS England is not exceeded
Breakeven duties (achieve financial balance)	Duty to act with a view to ensuring its expenditure does not exceed the sums it receives	Objective to break even – that is, duty to seek to achieve system financial balance
Financial apportionment	Revenue and capital resources of all trusts apportioned exclusively to a principal ICB	
ICB administration costs	Duty not to exceed the ICB running cost allowance limit set by NHS England	
Risk management	Local contingency decision required to show how financial risks will be managed	
Prior year's under and overspends		Maintain as a cumulative position
Repayment of prior year's overspends		All overspends are subject to repayment
Mental Health Investment Standard	Comply with standard	
Better Care Fund	Comply with minimum contribution	

13. As in 2022/23, there is a key requirement for the ICB to deliver at least a breakeven position, and collectively for the system to break even. The ICB is also required not to exceed the running cost allowance limit.

PART D – Planning approach and key assumptions

Contracts

14. NHS Provider trust contract baselines have been rolled forward from 2022/23 adjusted for non-recurring funding to produce a recurrent 'exit' baseline for 2022/23. Contracts will continue to be largely a fixed, block amount, but with a variable element for activity within the scope of elective recovery funding (elective ordinary and day case, outpatient procedures, outpatient first attendances). The variable element will be transacted in-year with activity paid for at 100% of the NHSPS unit price.

Contract Uplifts

15. Provider contracts are expected to increase by a net tariff uplift of 1.8%. This is based on a tariff Cost Uplift Factor (CUF) of 2.9%, less a national efficiency ask of 1.1%. The 2.9% CUF is comprised of the following:

Cost	Estimate	Cost weight	Weighted estimate
Pay	2.1%	68.9%	1.5%
Drugs	1.3%	2.4%	0.0%
Capital	4.0%	7.1%	0.3%
Unallocated CNST	1.5%	2.2%	0.0%
Other	5.5%	19.3%	1.1%
Total			2.9%

16. It should be noted that the percentage values above are based on national averages, and often the actual impact across different cost groups can vary. Key elements to note are as follows:

- a) Pay – when the pay settlement is agreed for 2023/24, there may be a differential impact depending on grade of staff and whether staff groups are covered by Agenda for Change (AfC) pay-scales or others (e.g., VSM, medical social care, subsidiary companies, etc). In 2022/23 the differential approach to the pay award resulted in a significant pressure in NENC (c£20m) due to the fact there was a higher proportion of staff on AfC pay scales compared to the national average, and a higher proportion of staff in lower bands, which attracted a higher pay award. The Board should be aware of the potential impact of an award which has differential elements although based on latest information we expect this risk to be lower than last year. Additional funding will be received for the final 23/24 pay uplift settlements.
- b) Non-pay – this is likely to impact differentially on organisations depending on elements such as utility contracts and the extent to which some organisations have prices protected, and others don't, for example. It is also highly dependent on other issues such as whether a Trust or any provider of services has Public

Finance Initiative (PFI) contracts linked to the Retail Price Index, high energy needs and the mix of non-pay expenditure within their plans.

- c) Clinical Negligence Scheme for Trusts (CNST) historically impacts different trusts in different measures depending on factors such as clinical risk, activity

Efficiency Requirement

17. The national efficiency 'ask' for 2023/24 built into the national tariff calculation is 1.1%. Notwithstanding this, the NHS England message is that there is an overall efficiency expectation of 2.2% in 2023/24 as there are a number of additional adjustments to allocations which together have the effect of increasing the total efficiency requirement for the system. These include:

- a) Convergence – an allocation reduction has been applied to a number of different allocations based on Distance from Target calculations. Key reductions highlighted in this document include:

Allocation	2023/24
ICB Core Services	-0.71%
Primary Medical Care	-0.27%
Other Primary Care Allocations	-0.10%

- b) A reduction in Covid funding from £126.5m to £24.8m

18. In addition, NHSE have highlighted the reduction in productivity across the NHS since the beginning of the Covid pandemic. On average, staffing numbers are higher and activity is lower than pre-pandemic levels, and as such there is an expectation inherent in delivery of financial plans that productivity gains are delivered.

19. The impact of all the above is a true efficiency ask which is far in excess of the 1.1% included in tariff, which together with adverse underlying positions going into 2023/24, make achieving a balanced plan significantly more challenging. Parts E and F highlight the total efficiency ask in the latest financial plans for both the ICB and partner provider trusts respectively.

Key planning assumptions

20. The following key planning assumptions have been applied in the ICB and wider ICS financial plan:

21. NHS provider contract values are based on:

- Rolled forward 2022/23 values adjusted for non-recurring funding and any agreed in-year recurrent changes,
- Convergence adjustment of 0.71% applied across all baseline contracts, based on relative share of top-up funding,

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- 2023/24 inflationary uplift of 2.9% less efficiency rate of 1.1% to give an overall net uplift of 1.8% (see above),
- Covid funding applied at 0.6% for acute and mental health contracts and 1.2% for ambulance, as set out in financial planning guidance,
- Activity recovery support funding of 0.9% added to acute and ambulance contracts,
- Virtual wards funding allocated based on approved schemes,
- ERF funding allocated based on relative increase in activity targets in 2023/24 compared to 2019/20 baselines.

22. Spend on mental health is planned to increase in line with the Mental Health Investment Standard (6.7%).

23. Better Care Fund growth of 5.7% has been included in line with planning guidance.

24. Confirmed Service Development Funding included within the financial allocations has been protected and is planned to be spent in full less any slippage to meet in - year savings targets.

25. A 2.4% increase in prescribing costs has been assumed, prior to stretch efficiency assumptions.

26. A total of 12% growth has been included in respect of individual packages of care (continuing healthcare) to reflect expected fee increases and potential growth in package numbers, again prior to stretch efficiency assumptions. This is higher than the national estimate included within ICB allocation growth (total of 7.3%) and reflects latest expected position on fee increases (current proposed uplifts across majority of Local Authorities amount to 12% on average) and activity growth to meet demand and support discharges.

27. Total ICB efficiencies of £94.9m are included in the plan (compared to a forecast of £48.5m in 2022/23). Total planned efficiencies across provider trusts within the ICS amount to 4.5% of provider turnover overall (compared to around 3.2% delivered in 2022/23).

PART E – ICB financial plan and budgets

28. The ICB financial plan for 2023/24 is shown below:

Annual Plan 2023/24 £'000	Annual Plan Dental, Ophthalmic and Pharmacy 2023/24 £'000
ICB Financial Plan and Budgets 2023/24	
ICB Allocation	6,818,425
ICB Expenditure:	
Acute Service Expenditure	-3,423,214
Mental Health Service Expenditure	-865,217
Community Health Service Expenditure	-660,703
All-age Continuing Care Service Expenditure	-451,690
Primary Care Service Expenditure	-670,061
Other Programme Service Expenditure	-46,613
Other Commissioned Service Expenditure	-10,175
Primary Medical Services Expenditure	-593,615
Delegated Primary Care Expenditure	-344,532
Total ICB Commissioning Service Expenditure	-6,721,288
Running Costs	-57,406
Reserves/Contingencies	-7,327
Total ICB Expenditure	-6,786,021
Total ICB Net Position Surplus / (Deficit)	32,404

29. Movements in the overall ICB surplus position since that presented to Board on 28 March 2023 are shown below:

ICB Financial Plan Position 2023/24	Presented to Board 28 March 2023 £'000	Submitted in financial plan 30 March 2023 £'000	Final plan submitted 4 May 2023 £'000
ICB Surplus / (Deficit) Position	12,407	5,851	32,404
<i>Movement</i>		-6,556	26,553

30. The overall net ICB position reported to Board on 28 March 2023 was a surplus of £12.4m. This included various 'system adjustments' including anticipated income which was reflected in the ICB position. Excluding those adjustments, the actual ICB position was breakeven.

31. The plan submitted on 30 March 2023 included an amendment to those 'system adjustments' with the remaining ICB position continuing to be breakeven.
32. The movements in the latest ICB surplus position compared to that submitted in March include the following:
- 'System Adjustment' to allocate depreciation funding, -£15m (reduction in surplus)
 - Assumed benefit from uncommitted SDF, £10m
 - Anticipation of additional unplanned slippage on budgets / reduction in investments, £13.5m
 - Assumed benefit from ERF funding on Independent Sector Activity (currently planning to over-deliver against target), £15m
33. The latest surplus position helps to offset deficits in the provider position, as shown in Part F. The system adjustments are held at ICB level at present, but further work will be required in due course to appropriately reflect funding/income in relevant organisations. This may result in changes to individual organisational positions but with no net impact on the ICS as a whole.
34. This position includes an extremely challenging efficiency requirement and presents substantial potential risks to delivery.
35. As referenced in Part A, whilst a balanced financial plan has been delivered in 2022/23, this included a number of significant recurring financial pressures which have been mitigated on a non-recurring basis in-year. The recurring 2022/23 exit run rate of the ICB has been estimated at a deficit of over £97m. This includes in particular:
- Pressure arising from prescribing price concessions and Category M drugs in 2022/23 (£17.5m),
 - Increased independent sector acute activity (£21m),
 - Recurring financial pressure on delegated primary medical care (£15m),
 - Other non-recurring efficiencies delivered in the 2022/23 plan (£43.6m)
36. This underlying recurring position from 2022/23 gives some context to the ICB financial plan position for 2023/24. The draft ICB financial plan position in February 2023 was a deficit of just over £67m. This was reduced to a breakeven position via the following adjustments:
- Review and reduction of growth assumptions (in particular around Continuing Healthcare packages of Care (CHC))
 - Release of uncommitted budgets and any contingency reserves
 - 1% additional efficiency included on prescribing and CHC (c£10m)
 - Additional stretch efficiencies and non-recurring measures totalling £32.9m

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37. Further benefits have now been assumed relating to uncommitted SDF and further anticipated slippage, along with benefits on ERF funding, as noted in para. 32 above to achieve the latest position of a surplus of £32.4m.

38. Total ICB efficiencies included within the latest plan amount to almost £95m as shown below. This is almost double the actual efficiencies delivered in 2022/23 (£48.5m) and just over 50% of the planned efficiencies are expected to be non-recurring.

	£000's	£000's	£000's
Area	Total	Recurrent	Non Recurrent
CHC	17,128	17,128	
Prescribing	23,904	23,904	
Other Non NHS	5,409	5,409	
Non-recurring savings	48,503		48,503
Total Efficiency	94,944	46,441	48,503
Percentage		48.9%	51.1%

Efficiencies delivered in 2022/23	48,461	
<i>Increase required</i>	<i>46,483</i>	<i>96%</i>

39. The additional stretch efficiencies included within the figures above (£32.9m) in particular present a real significant increased risk to delivery of the plan (reflected in the financial risks in Part G).

40. All contingency reserves and uncommitted budgets have been removed from the plan to deliver the current position, leaving limited options for mitigation of any risks that materialise within the year.

41. Included within the ICB plan are significant unfunded pressures, including excess inflationary pressures (over and above the inflation estimate included within funding allocations) totalling £55m. This includes:

- Price inflation pressures totalling £29m on CHC and s117 packages of care where fee negotiations with providers and local authorities are demonstrating increases significantly in excess of national assumptions,
- £18m relating to the value of cost concessions within prescribing budgets which are significantly higher than national assumptions,
- £4m additional pressure on delegated primary medical care budgets where allocation uplifts are insufficient to meet expected costs,
- £4m pressure on expected property charges.

42. These additional unfunded pressures have been partially mitigated within the current plan largely through a range of non-recurring measures.

43. Included within the ICB plan are a number of contracts/agreements with values in excess of £30m, which are listed in appendix 1. These comprise contracts with local NHS Foundation Trusts (within the ICS), together with certain section 75 agreements with local authorities which are above £30m.

44. These have all been agreed by Executive Committee as part of wider contract mandate approvals, but those contracts above £30m are required to be approved by the Board in line with ICB delegated financial limits.
45. Better Care Fund agreements are still to be finalised for 2023/24 however approval of expected values is requested to support initial payments on account being made. Further detail of the content of Better Care Fund and other section agreements with local authorities will be presented back through Executive Committee in due course.

PART F – ICS financial plan

46. The overall ICS position for 2023/24 is showing a net deficit of £49.9m:

Annual Plan Surplus/(deficit) 2023/24 £'000	
ICS Financial Plan 2023/24	
ICB net surplus / (deficit)	32,404
Provider trust net surplus / (deficit)	-82,277
Overall ICS surplus / (deficit)	-49,873

47. Movements in the overall ICB surplus position since that presented to Board on 28 March 2023 are shown below:

ICS Financial Plan 2023/24 Overall Surplus / (Deficit)	Presented to Board 28 March 2023 £'000	Submitted in financial plan 30 March 2023 £'000	Final plan submitted 4 May 2023 £'000
ICB net surplus / (deficit)	12,407	5,851	32,404
Provider trust net surplus / (deficit)	-207,107	-172,436	-82,277
Overall ICS surplus / (deficit)	-194,700	-166,585	-49,873
Movement		28,115	116,712

48. Significant work has continued since initial draft plan submissions, led by the Executive Director of Finance working closely with ICS Directors of Finance and Chief Executives to review organisational positions, potential pressures and seek to reduce the deficit position.
49. Initial draft financial plans showed an overall deficit position of over £630m in total. Following intensive work to review positions, including ICB led reviews with individual provider trusts, the draft financial plan submitted on 23 February showed an overall deficit position of £410m in total (just over 6% of turnover).

50. Further work was undertaken with ICS Directors of Finance to review and peer challenge plans to result in the plans submitted in March 2023. This included reviewing all residual funding allocations, reviewing and challenging (where appropriate) cost assumptions, and inclusion of additional stretch efficiencies. These actions helped to reduce the overall deficit, but it should be noted this also contributes to additional potential financial risks to the plan which are summarised further below.
51. Since the financial plan submission in March 2023, further focused work has taken place across the system and with NHS England to identify additional actions to reduce the deficit. This has included the following:
- Review and reduction of planned growth in pay costs in line with NHSE expectation of 2.1%,
 - Additional stretch efficiencies with all providers now planning to deliver in excess of 4% efficiencies (and 4.6% on average),
 - Review of planned investments and potential non-recurring opportunities,
 - Review of potential opportunities identified from NHSE review of two provider trusts,
 - Improved productivity on elective activity,
 - 'System adjustments' identified within the ICB plan (see para 32 above)
52. The net impact of these actions has been a total improvement in the overall ICS deficit position of almost £117m compared to the plan submitted on 30 March 2023.
53. The position presented to Board on 25 April 2023 was an overall planned deficit of £75.2m. Subsequently, a further improvement of £2.2m in the ICS position was agreed, across three FTs, with £18m of additional funding and £5m of other benefits then agreed with NHSE to reduce the overall deficit down to £49.9m.
54. All but three FTs within the ICS are now reporting at least a break-even plan position.
55. The actions taken to reduce the planned deficit all contribute to a material increase in unmitigated financial risks, see Part G. In addition to potential financial risks, there are significant potential risks to operational delivery arising from some of the actions, including the increased efficiencies required and potential impact on staffing levels for example.
56. Key issues across the ICS that are driving the planned deficit include:
- NR measures used across the system to balance in 22/23 of **£100m**,
 - Convergence funding reduction over 2 years (22/23 and 23/24) of **£100m**,
 - 22/23 planned surpluses used to offset planned deficits of **£60m** not sustainable,
 - Lower levels of 23/24 growth **£19m** but all national requirements planned (e.g., MHIS, BCF growth),
 - IS Growth in 22/23 **£25m**,

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- “Pick-up” funding previous supported centrally; Community Diagnostic Centres **£11m**, Virtual Wards **£8m**, 111 **£3m**,
- Necessary recurrent investment of **£20m** into Ambulance services to achieve performance targets and access national ambulance recovery funding (**£8m**),
- Historic Shortfall in delegated primary care budgets **£19m**

57. Included within the deficit are also significant excess inflationary pressures (over and above the inflation estimate included within funding allocations and contract uplifts) which have been estimated at £116m across the ICS (note – this has been adjusted by NHSE to remove certain costs not considered to be excess inflation costs in 23/24). This includes the £55m already highlighted within the ICB plan, together with a further £60m of unfunded pressures within NHS provider trusts.

58. This includes additional energy costs, PFI costs and a range of other non-pay contracts (e.g., catering, laundry, telecoms etc) which are being inflated in line with national inflation rates (RPI/CPI) which are materially higher than the assumed growth included within the NHS tariff cost uplift factor.

59. Total efficiencies included within provider plans now amount to £313.4m (4.5%). This is higher than achieved in 2022/23 and represents a significant potential risk to delivery of plans.

PART G – Key financial risks

60. There are a number of potential financial risks associated with both the ICB financial plan and wider ICS plan, which have increased as a result of the actions taken to reduce the planned deficit. The latest position is summarised below:

Risks and Mitigations in Financial Plan	ICB 2023/24 £'000	Provider Trusts 2023/24 £'000	Total ICS 2023/24 £'000
(Risks)/(Offsets to benefits):			
Additional cost risk (capacity, pressures, winter)	(28,460)	(76,621)	(105,081)
Additional cost risk (inflation)	(8,460)	(52,302)	(60,762)
COVID risk		(4,500)	(4,500)
Efficiency risk	(24,785)	(142,327)	(167,112)
Income risk (excl. ERF)		(60,722)	(60,722)
Total Risks	(61,705)	(336,472)	(398,177)
Mitigations/benefits:			
Additional cost control or income (excl. ERF)		69,412	69,412
Transformational / Pathway changes		0	0
Efficiency mitigation	10,000	58,078	68,078
Unmitigated: COVID		8,752	8,752
Mitigations not yet identified	24,785	124,672	149,457
Total Mitigations	34,785	260,914	295,699
Total Net Risk (excluding ERF)	(26,920)	(75,558)	(102,478)
Total Unmitigated Net Risk	(51,705)	(200,230)	(251,935)

61. The overall net risk position expected to be reflected in the plan is £102.5m, however this also includes significant mitigations not yet identified. Total unmitigated net risk amounts to almost £252m (3.7%).
62. Total unmitigated risk in the plan submitted on 30 March 2023 amounted to £189.9m. The significant increase in the latest figures reflects the additional risk introduced by the actions taken to reduce the planned deficit.
63. Risks will continue to be reviewed across the system with a view to reducing or mitigating as far as possible.
64. Within the ICB, the main risks relate to potential growth in prescribing costs, particularly linked to cost concessions, as well as growth in continuing healthcare costs. There is also a risk of additional activity on acute independent sector contracts although this should be funded via elective recovery fund.
65. Across the wider ICS there are significant risks relating to excess inflation cost pressures and additional costs associated with capacity pressures. There is also a significant risk around the delivery of required efficiency savings included within the plan, which are significantly higher than efficiencies delivered in 2022/23.
66. The net risk of non-delivery of efficiency plans amounts to c£100m, with total efficiency plans across the ICS amounting to 6% of funding allocation.
67. There are a range of associated non-financial risks which are impacted by the financial plans and actions taken to reduce the deficit. This includes risks around workforce and capacity, delivery of planned activity levels, quality impact arising from efficiency plans and delivery of performance targets including Cat 2.

PART H – NENC Capital Plan

68. In total, capital allocations amount to £213.8m across the ICS. This includes baseline allocations (including funding for Asceptics and UEC Ambulance) as well as £17.1m representing the ICS share of £300m additional national funding allocated to systems based on delivery of a balanced financial position in 2022/23:

	2023/24
Capital Allocations	£m
Providers:	
Baseline allocation (incl. Asceptics and UEC ambulance)	181.9
Additional allocation	17.1
5% tolerance	9.4
Total provider capital allocation	208.4
ICB capital allocation	5.5
Total ICS Capital Allocation	213.8

69. As in 2022/23, the provider capital allocation is effectively delegated to the Provider Collaborative to manage, with the allocation of funding shown below:

	2023/24
Allocation of capital funding	£m
Providers:	
South Tyneside and Sunderland NHS Foundation Trust	18.9
North Cumbria Integrated Care NHS Foundation Trust	12.1
Gateshead Health NHS Foundation Trust	9.5
The Newcastle Upon Tyne Hospitals NHS Foundation Trust	37.4
Northumbria Healthcare NHS Foundation Trust	52.6
South Tees Hospitals NHS Foundation Trust	11.9
North Tees and Hartlepool NHS Foundation Trust	17.3
Tees, Esk and Wear Valleys NHS Foundation Trust	13.9
Cumbria, Northumberland, Tyne and Wear NHS Foundation Trust	8.8
North East Ambulance Service NHS Foundation Trust	10.6
County Durham and Darlington NHS Foundation Trust	15.4
Total provider capital allocation	208.4
ICB:	
GPIT	4.9
Improvement grants	0.5
Total ICB capital allocation	5.4
Total provider capital allocation	213.8

70. The provider figures above include a number of pre-commitments, totalling £21.5m relating to specific Asceptics, Maternity and UEC Ambulance capital funding (including the re-provision of funding received in 2022/23).

PART I – Next steps and timelines

71. Following discussion at the Board development session on 25 April 2023, the financial plan was submitted to NHSE on 4 May 2023.

72. Discussions have commenced with partners across the ICS around the development of a medium-term financial plan and strategy to address underlying recurring deficits across the system.

73. Work will continue to review plans for 2023/24 and monitor delivery during the year, via the Finance, Performance and Investment Committee with regular updates to Board.

Recommendations

74. The Board is asked to:

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- a) approve the final ICB and ICS financial plan for 2023/24, including those contracts which are above £30m as per appendix 1.

Appendix 1 – contracts with an annual value of £30m or above

NHS Foundation Trusts

Provider Name	Service Description	Previous Contract End Date	Expected Annual Contract Value £'000s	Recommendation for 2023/24	Notes
County Durham and Darlington NHS FT	Acute	31/03/2023	£526,514	Propose new 12 month contract	See note 1 below
County Durham and Darlington NHS FT	Community	31/09/2023	Value included in Acute line	Not applicable	Contract contains an option to extend for up to 5 years. Proposal to extend will be the subject of a separate committee paper.
Gateshead Health NHS FT	Acute	31/03/2023	£255,367	Propose new 12 month contract	See note 1 below
Gateshead Health NHS FT	Community	31/09/2024	Value included in line above	Not applicable	Contract not expiring as previously extended to 31/09/24
The Newcastle Upon Tyne Hospitals NHS FT	Acute & Community	31/03/2023	£612,848	Propose new 12 month contract	See note 1 below
Northumbria Healthcare NHS FT	Acute & Community	31/03/2023	£497,445	Propose new 12 month contract	See note 1 below
South Tyneside and Sunderland NHS FT	Acute & Community	31/03/2023	£559,531	Propose new 12 month contract	See note 1 below
North Tees and Hartlepool NHS FT	Acute & Community	31/03/2023	£324,330	Propose new 12 month contract	See note 1 below
South Tees Hospitals NHS FT	Acute & Community	31/03/2023	£402,729	Propose new 12 month contract	See note 1 below
North Cumbria Integrated Care NHS FT	Acute & Community	31/03/2023	£382,375	Propose new 12 month contract	See note 1 below

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Provider Name	Service Description	Previous Contract End Date	Expected Annual Contract Value £'000s	Recommendation for 2023/24	Notes
Tees, Esk and Wear Valleys NHS FT	Acute & Community	31/03/2023	£247,285	Propose new 12 month contract	See note 1 below
Cumbria, Northumberland, Tyne and Wear NHS FT	Acute & Community	31/03/2023	£342,053	Propose new 12 month contract	See note 1 below
North East Ambulance Service NHS FT	Ambulance	31/03/2023	£198,703	Propose new 12 month contract	See note 1 below

Note 1:

In accordance with the procurement policy, formal tendering procedures have been waived as it would not be practicable for these services. In line with Regulation 32 (b) of the Public Contracts Regulations, it is considered that competition is absent for technical reasons, i.e. there is only one supplier with the expertise to do the work, provide the service or with capacity to complete on the scale required. This is on the basis that re-procuring a full suite of interrelated hospital services is not practicable or reasonable. For most of these services patient choice also applies, meaning any potential procurement exercise would be of limited benefit.

North of England Commissioning Support (NECS)

Provider Name	Provider type	Service Description	Annual Contract Value £'000s
NECS	Commissioning Support Unit	Admin, programme and GPIT services	£34,450

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Provider Name	Provider type	Service Description	Previous Contract End Date	Expected Annual Contract Value £'000s	Recommendation for 2023/24
Northumberland County Council	Local Authority Section 75 / 117 Agreement	Continuing Healthcare (CHC)	Until Terminated	£61,619	Propose new 12 month contract
Sunderland City Council	Local Authority	S75 - BCF (This is an element of the S75 relating to services from Sunderland City Council and Sunderland Care and Support)	31/03/2023	£58,682	Propose new 12 month contract
Durham County Council	Local Authority	Section 75 – BCF	31/03/2023	£53,104	Propose 12 month contract
Newcastle City Council	Local Authority	Section 75 - Better Care Fund	31/03/2023	£51,885	Propose new 12 month contract
Gateshead Metropolitan Borough Council	Local Authority	Section 75 - Better Care Fund	31/03/2023	£35,904	Propose new 12 month contract
Northumberland County Council	Local Authority Section 75 Agreement	Better Care Fund	31/03/2023	£48,520	Propose new 12 month contract

Note 2:

BCF funding may not universally go to LAs to spend, as they are pooled budgets and funding is used differently by Places. A significant proportion of BCF funding is instructed to be transferred for use by the LA's however.