

Dumfries and Galloway
Integration Joint Board

8th December 2022

This Report relates to
Item 6 on the Agenda

Financial Performance Update – Quarter Two

Paper presented by Katy Kerr

For Discussion and Noting

Author:	Katy Kerr, Chief Finance Officer, IJB katy.kerr@nhs.scot
List of Background Papers:	Not required
Appendices:	None

Direction Required to Council, Health Board or Both	Direction to:	
	1. No Direction Required	X
	2. Dumfries and Galloway Council	
	3. NHS Dumfries and Galloway	
	4. Dumfries and Galloway Council and NHS Dumfries and Galloway	

1. Introduction

- 1.1 This report presents an update on the financial performance for the budgets delegated to the Integration Joint Board (IJB) based on the position at the end of September 2022, Quarter Two (Q2) of financial year 2022/23. This position assesses the forecast financial performance for 2022/23 as compared to the original Financial Plan which was approved by the IJB in April 2022. It is recognised the financial position for 2022/23 remains incredibly challenging and there are a number of emerging risks which since this initial review remain unresolved at the time of preparing this report.

2. Recommendations

- 2.1 **The Integration Joint Board is asked to note the following recommendations:**
- **Assurance** – The IJB is asked to take assurance in relation to the update on the financial position, however, recognise that the current in-year gap is projected at £15.191m in line with opening Financial Plan. There remains considerable risk in relation to the financial position and this is set out in the paper. Note the release of funding from the Covid-19 reserve.
 - **Discussion** – The IJB is asked to discuss the issues contained within this paper.

3. Background and Main Report

Quarter Two Update for 2022/23

- 3.1 The Financial Plan was approved at the IJB in April 2022 and set out an estimated financial gap of £24.921m. The plan identified savings and additional funding of £9.730m (split £3.7m recurring and £6m non-recurring) which reduced the underlying in-year gap to £15.191m.
- 3.2 This report provides an update of the forecast position as at Q2 financial review and assesses the impact on the in-year position for the delegated budgets. The Q2 re-assessment of the financial position has now been concluded and, as per the table below, the position has further worsened and the level of non-recurring flexibility increased to retain the £15m in-year deficit.

Table 1 - Quarter 2 Update

Opening	Approved Financial Plan	Q1	Q2
	£000s	£000s	£000s
2021/22 Closing Recurring Deficit	(22,191)	(22,191)	(22,191)
2022/23 Net additional recurring	(2,730)	(2,730)	(2,730)
2022/23 Opening Recurring Financial Gap	(24,921)	(24,921)	(24,921)
Recurring Savings targeted	3,730	2,917	2,917
22/23 Target Recurring Deficit	(21,191)	(22,004)	(22,004)
Non-recurring Directorate Overspends	0	(3,000)	(7,000)
Offset by Non-recurring Flexibility	6,000	9,813	13,813
2022/23 In Year Forecast	(15,191)	(15,191)	(15,191)

- 3.3 The current forecast excludes any pressures on medicines (both Acute and Secondary) as this forecast requires further work. The overspend up to the end of September 2022 for these areas is circa £1.3m, however, this is an area of

significant judgement given the delays in receiving the data required to accurately estimate spend. Further work will be completed on this area of the budget over Q3.

- 3.4 There is, however, also a significant increase in underspending on Pays across all directorates primarily within Community Health and Social Care, Mental Health and Women and Children's, and as with Q1 this will be removed from budgets to ensure that it is not re-utilised locally and will be counted towards delivering against the non-recurring flexibility target, including Q1 underspends already identified the total underspends removed on a non-recurring basis is £8.3m.
- 3.5 There are pressures across a range of areas within Social Work budgets specifically Adults with Learning Disabilities and Mental Health which are offset by the underspends within Older Peoples services. These pressures will likely translate into recurring pressures as set out in table 4.
- 3.6 As per the table below, core service overspends exclude areas where costs can be identified as attributable to Covid-19 and remobilisation and these costs have been covered in-year by Covid-19 IJB reserves. Work is required at a Directorate level now to review and pull back these costs as we approach a new financial year as there is no further funding to cover these costs; any recurring costs will require to be considered as part of developing the 2023/24 Financial Plan.
- 3.7 For NHS staff, it has been assumed that the additional costs of any pay settlement will be fully funded by Scottish Government to NHS Boards and therefore onto Health and Social Care Partnerships. At the time of drafting this paper, the pay settlement has not been concluded. Additional funding of £750k has been agreed with Dumfries and Galloway Council, to support the additional costs of the Local Authority pay settlement for the staff as part of the delegated budget estimated to cost £1,072k.
- 3.8 The overall position is summarised in the table below.

Table 2 - Movement in Position

	Q1	Q2	Shift
	£000	£000	£000
Core service overspends primarily within Acute, Mental Health and Facilities in Q1, however this has worsened and now across all operational directorates in Q2.	(3,000)	(7,000)	(4,000)
Costs identified as attributable to Covid-19 effort	(11,750)	(11,976)	(226)
Core service underspends on pays - restructuring, vacancies, incremental drift, Q1 primarily Community, Women & Children and Ehealth, Q2 now across all directorates.	4,131	8,331	4,200
Directorate Forecast	(10,619)	(10,645)	(26)
Covid-19 funding allocated from IJB Reserve	11,750	11,976	226
Forecast adjusted for Covid-19 funding	1,131	1,331	200
Remove pay underspends so not re-utilised	(4,131)	(8,331)	(4,200)
Forecast	(3,000)	(7,000)	(4,000)

Non-Recurring Flexibility

- 3.9 Given the worsening of the Directorate forecasts and the removal of the non-delegated recurring Cash Releasing Efficiency Savings (CRES) target, the requirement for non-recurring flexibility has significantly increased, however, a further £4.2m has already been identified through the removal of Q2 forecast Pay

underspends within the operational directorates. The table below sets out the position against the revised target:

Table 3 – Non-recurring Flexibility

Analysis by type	Total
Financial Flexibility and Technical Adjustments	227
Directorate u/spends - pays	8,331
Directorate u/spends - other	0
Total	8,558
Target	13,813
Shortfall still to identify	(5,255)

- 3.10 At this stage, the gap of £5.255m is still considered achievable, with the potential of further support from NHS Board and other plans to close the gap including use of IJB reserves. These will be assessed during Q3. Further measures will be required if the overspend on medicines is not curtailed in the second half of the year or if the forecasts worsen further.

Cost pressures

- 3.11 There are a number of key overspends and cost pressures as set out in table 4 below. These will need to be assessed and reviewed as part of the budget process for 2023/24.

Table 4

Cost Pressures forecast	£000s
Locum costs across DGRI, Mental Health, 2c GP Practices, Neonatal, Allied Health Professionals (AHPs), Paediatrics and Obs/Gynae (over and above £4.9m central funding, £2m Covid-19 funding and money allocated at directorate level)	(3,820)
Inflationary pressures - energy (in addition to additional funding of £1.47m already issued)	(1,000)
Activity pressures including labs, community hospital and DGRI wards supplies	(793)
DGRI Nursing- high level of activity, increased sickness and increase of Health Care Support Worker (HCSW) for 1.1's (in addition to £1.5m Covid-19 funding)	(734)
Inflationary pressures easily identifiable - imaging, catering, waste, laundry	(500)
Shortfall on residencies accommodation (Dumfries and Stranraer)	(180)
Paediatric Short Stay Assessment Unit (PASSAU) is open at weekends due to levels of activity and complexity of patients. DGRI original business case funded M-F	(164)
GP Out of Hours (OOHs) - Police Custody medical cover contract is activity driven	(127)
General low value pressures across all directorates offset by central funding still held	(402)
Funding still sitting centrally to offset these cost pressures, not yet issued	720
Adults with Learning Disabilities – increased activity and complexity of social work referrals	(3,000)
Adults with Mental Health – increased activity and residential placements	(900)
Total Forecast Cost Pressures	(10,900)

Allocations

- 3.12 As previously highlighted, the Board have been holding a level of risk on anticipated allocations and Scottish Government advised that they were awaiting the outcome of the Emergency Budget Review (EBR) in light of the cost of living crisis and inflationary pressures before clarity could be provided. The EBR was published on 2

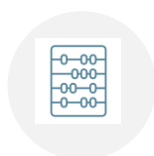
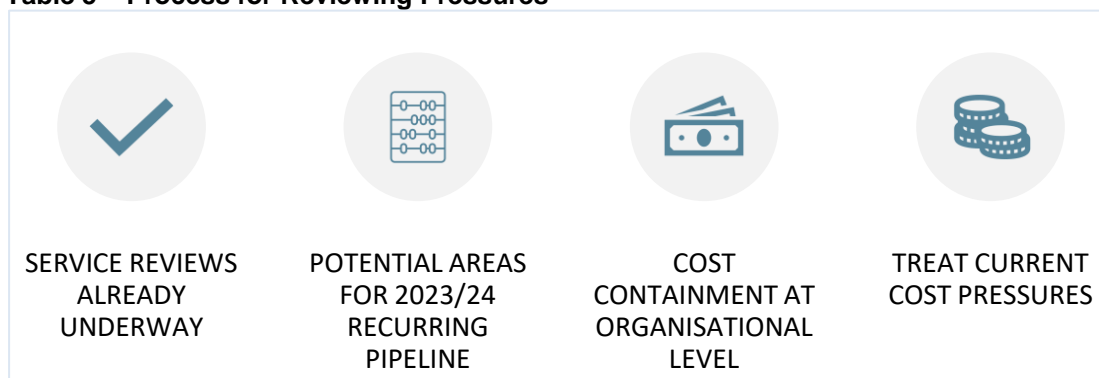
November 2022 and further detail can be accessed in the attached link [Emergency Budget Review: 2022 to 2023 - gov.scot \(www.gov.scot\)](https://www.gov.scot/budget-reviews/emergency-budget-review-2022-to-2023).

- 3.13 The EBR sets out reprioritisation of spend of c.£0.4 billion within the Health and Social Care Portfolio to support Agenda for Change Pay and wider pressures in the sector. To minimise impact on existing services, this has largely focused on previously planned additional funding and new allocations. As the Deputy First Minister has made clear, however, difficult decisions have been needed and any new commitments or additional spend needs to be found from offsets elsewhere in the Scottish Government budget.
- 3.14 Until this point, funding has paused in some areas due to the planned announcement of the EBR. Following the announcement, it is now expected that a number of outstanding allocations can now be moved forward to NHS Boards and Integration Authorities. The allocation letter for October 2022 was received on 3 November 2022; and there is £47m of allocations which remain outstanding along with top slices of £10m reduction also anticipated, leaving a net position of £37m not yet allocated.
- 3.15 Further discussions with NHS Directors of Finance and IJB Chief Finance Officers on the implications of the EBR announcement will take place during November 2022 and further updates will be provided when available.

2023/24 Planning

- 3.16 At a national level, the draft Scottish Government budget for 2023/24 is due to be published on 15 December 2022 and planning assumptions for future funding will then be provided to NHS Boards including any Covid-19 additional costs. The financial outlook remains incredibly challenging with future years funding for Agenda for Change Pay settlement still to be found recurrently.
- 3.17 At a local level, work is now underway to look ahead to 2023/24. The recurring deficit is currently £30.2m and as described earlier in this paper there is a growing level of non-recurring pressures building within the system as activity and inflationary pressures grow as well as costs covered in 2022/23 by Covid-19 IJB reserves which will undoubtedly push the deficit up.
- 3.18 The Financial Recovery Board (FRB) has been refreshed to ensure that there is a clear focus on a return to financial balance as set out in the 12 September 2022 letter from Scottish Government. The terms of reference are currently being re-drafted and will be presented to Performance and Resources Committee in due course.
- 3.19 A workshop was held with the NHS Delegated services General Managers and Finance Managers on 31 October 2022 to explore potential opportunities. Rather than purely focus on recurring efficiency schemes at a directorate level as is the traditional approach, the focus was on the following four key elements:

Table 5 – Process for Reviewing Pressures



There are a number of potential pipeline schemes that the General Managers have put forward and these now need a decision before further scoping work can be completed. The majority of recurring ideas which are now being identified will have several constraints to delivery. A workshop with FRB members and other Directors is the next step in progressing these ideas.



The group agreed that the area where they thought they could make the biggest impact was by seeking to understand the total spending at an organisational level and take forward cost containment work by implementing new standard operating procedures (SOPs) across the whole budget rather than the traditional approach at a directorate level, with a view to bringing overall costs down using economies of scale not able to be delivered at a directorate level.

3.20 The areas of focus have been agreed as:

Table 6 – Cost Containment Areas for Review

Cost Containment Workstreams	Comments
External spending review	All money that goes to an external provider including other Boards and Resource Transfer.
Rationalisation and efficiency of the estate	Linking into the Boards sustainability workstream.
Activity driven Non-pays spend	All costs where activity is the driver.
Staffing (Pays and Non-pays) spend review	Will link into HR workstream as appropriate once outputs are identified and pick up any of the financial analysis required for the locum workstream.
Equipping Costs	Will also consider 5yr post opening of DGR1 impact assessment.
Procurement Processes as a means of tightening grip and control	Will also pick up any non-activity driven costs not covered by another group.
Income Recovery	Ensuring all income is being recovered and at an appropriate costed level.



The level of cost pressures currently within the system is also an area of concern and although some of these may be picked up by the work described above, work will be required ahead of 2023/24 to look at ways of addressing these using the 4Ts approach of Treat, Tolerate, Transfer, Terminate.

Covid-19 costs

- 3.21 At the time of preparing the 2022/23 Financial Plan, the planning assumption was that Covid-19 and remobilisation costs would be funded in full and no financial impact was factored into the Financial Plan. It was subsequently confirmed by Scottish Government that the IJB's should not anticipate any further Covid-19 consequential in 2022/23 or future years and that we should be actively developing local exit plans.
- 3.22 During 2021/22, £16.3m was carried forward through the IJB ring fenced Covid-19 reserve which will be the first call for any in-year costs being incurred. This excludes the costs of delivery of the Test and Protect programme which Scottish Government confirmed that the planning assumption is full funding for programme costs in 2022/23. There has been a number of recurring commitments during the Covid-19 response, and these are being re-assessed as part of the revision to the three-year Financial Plan.
- 3.23 Funding of £9.276m has been released from the reserve for 2022/23 to cover the costs Covid-19 related services including the vaccination programme as per the table below. This has been updated using the Q2 estimates from the position presented in Q1:

Table 7 – Covid-19 funding released 2022/23

Covid-19 Reserve	Tranche 1 Released	Q2
	£000s	
Vaccination Costs	3404	3,324
Public Health Response - Enhanced Public Health Capacity	440	440
Additional Infection Prevention and Control Costs	500	500
Urgent Care Hub Model – GP Out of Hours (OOHs) costs (call handlers)	190	190
Additional Staff Costs - Nursing & Medical	3900	4,056
Cancer Patients - out of region costs	525	675
Other	91	91
Total Distributed to date	9,050	9,276
Still to Distribute (Social Work Costs)	2,700	2,700
Total	11,750	11,976
Reserve Balance	15,867	15,867
Balance to Return to Scottish Government	4,117	3,891

- 3.24 Any unspent Covid-19 funding will be required to be returned to Scottish Government as per the Scottish Government letter received 12 September 2022, with this projected position being submitted to Scottish Government as part of the month 6 monitoring return. They are aware there remain a number of uncertainties over the winter period and sustainability payments are demand led from providers. It was confirmed that there will be a reconciliation exercise done at Q4 to provide funding where the position is in excess of that forecast in the Q2 Financial Performance Return, or balance the reserve to nil where the position is below the Q2 forecast.

Reserves

- 3.25 The IJB carried forward reserves of £16.41m into 2021/22 relating to the balance of the ringfenced allocations; moving into 2022/23, the level of reserves has increased to £30.8m as set out in Table 7 below. As part of the Q3 review, a full reforecast of

the likely year end position for reserves will be undertaken and an assessment of reserve requirement to support the position will be set out.

- 3.26 Given the pressures in the overall Health and Care position, additional resource has been allocated from reserves to support the proposals in the winter plan, in particular support for Care at Home providers. This is a test of change basis and will require to be reassessed as part of budget position for 2023/24 and the longer term plans reviewed to assess if affordable.

Table 8 – IJB reserve position at 31 March 2022

IJB Reserves	2020/21	2021/22
	£000s	£000s
Integrated Care Fund	288	0
Primary Care Improvement Fund	380	2,262
Mental Health Strategy – Action 15	253	461
Alcohol and Drug Partnerships	771	1,604
Community Living Change Fund	497	497
Covid-19 Funding/Local Mobilisation Plan	7,824	16,346
Social Care Fund	2,583	1,704
Adult Social Care Winter Planning	3,815	2,203
Mental Health Recovery and Renewal	0	2,352
Winter Planning Health and Social Care	0	3,343
Total IJB Reserves	16,411	30,772

4. Conclusions

- 4.1 The Q2 assessment confirms that the IJB remains unable to move from the in-year deficit forecast of £15.191m given the further worsening of the position, however, delivery of this position is considered achievable at this time assuming there is no further worsening of the position.
- 4.2 £37m of anticipated allocations from Scottish Government remain outstanding at October 2022.
- 4.3 Planning is now underway on the 2023/24 Financial Plan and updates will be provided as work progresses on the four elements.
- 4.4 The IJB is asked to take assurance in relation to the update on the financial position, recognising that break-even is only likely to be delivered through additional non-recurring support through the NHS Board and brokerage or similar non-recurring support from Scottish Government to deliver a balanced position.

5. Resource Implications

- 5.1 Funding implications are considered as part of the overall Financial Plan and budget setting for the IJB. Significant additional funding was confirmed by Scottish Government to support winter planning. In year deficit position plus likelihood of increase in recurring deficit position moving forward.

6. Impact on Integration Joint Board Outcomes, Priorities and Policy

- 6.1 The Financial Plan has a key role in supporting the delivery of the Strategic Plan.

7. Legal and Risk Implications

7.1 The IJB's corporate risk in relation to resourcing is being reviewed for the next Audit, Risk and Governance meeting given the NHS Board has increased its finance corporate risk to very high, as a result of the forecast deficit.

7.2 From the paper presented, it is clear that there remains significant financial risk in the position as a result of the following assumptions;

- Pay award and any impact to Service Level Agreement (SLA) uplift is fully funded by Scottish Government
- Pay settlements for NHS not concluded at the time of writing this report
- Impact of escalating inflationary pressures
- Anticipated allocations are distributed from Scottish Government at the level expected and are not top sliced
- No further worsening of the directorate forecasts

7.3 In addition, there are real financial risks beyond those quantified in the Financial Plan, most notably in the following areas:

- Future year funding for impact of 2022/23 pay award as funding to date has only been identified as non-recurring by Scottish Government
- Recurring impact of Covid-19 related services and impacts including the vaccination programme
- Impact of funding to support elective recovery, with risk that funding is directed to those Boards with longest waits, reducing overall resource available for Dumfries and Galloway
- The impact of the activity growth beyond budgeted levels linked with clinical need, demographics, Covid-19 backlog and the unrelenting demand for services
- Cost pressures linked with rising inflation and activity pressures

7.4 In addition to the service risks, there is a potential impact around our recruitment strategy related to the cost of living crisis and our ability to maintain service levels as a result across Health and Social Care.

8. Consultation

8.1 Sean Barrett, Finance and Information Manager, Dumfries and Galloway Council, Susan Thompson, Deputy Director of Finance NHS Dumfries and Galloway, Health and Social Care Leadership Group.

9. Equality and Human Rights Impact Assessment

9.1. As this report does not propose a change in policy/strategy/plan/project, it is not necessary to complete an impact assessment. Individual savings schemes and difficult decisions will be impact assessed.

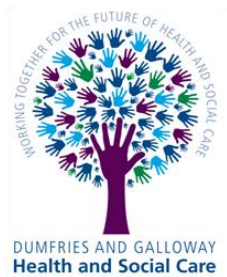
10. Glossary

10.1 All acronyms must be set out in full the first time they appear in a paper with the acronym following in brackets.

AHP	Allied Health Professionals
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CRES	Cash Releasing Efficiency Savings
EBR	Emergency Budget Review
FRB	Financial Recovery Board
HCSW	Health Care Support Worker
IJB	Integration Joint Board
PASSAU	Paediatric Short Stay Assessment Unit
SLA	Service Level Agreement
SOPS	Standard Operating Procedures

Dumfries and Galloway Integration Joint Board



DIRECTION

(ISSUED UNDER SECTIONS 26-28 OF THE PUBLIC BODIES (JOINT WORKING) (SCOTLAND) ACT 2014)

1.	Title of Direction and Reference Number	
2.	Date Direction Issued by Integration Joint Board	
3.	Date from which Direction takes effect	
4.	Direction to	
5.	Does this direction supersede, amend or cancel a previous Direction? If yes, include the reference number(s)	
6.	Functions covered by Direction	
7.	Full text of Direction	
8.	Budget allocated by Integration Joint Board to carry out Direction	
9.	Desired Outcomes	
10.	Performance Monitoring Arrangements	
11.	Date Direction will be Reviewed	