



Dumfries and Galloway  
Integration Joint Board

23<sup>rd</sup> March 2023

This Report relates to  
Item 6 on the Agenda

# Financial Performance Update – Quarter Three

*Paper presented by Katy Kerr*

*For Discussion and Noting*

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<b>List of Background Papers:</b>	Not required
<b>Appendices:</b>	None

## **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 December 2022, Quarter Three (Q3) 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 ongoing risks.

## **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 to reach the £15.191m in-year gap projected as part of the opening financial plan a further £4.6m non recurring flexibility requires to be identified. Two further adjustments have been identified which will reduce the gap to £11.8m if the non recurring flexibility gap is delivered. These adjustments cannot be used to reduce the £15.191m but must be applied to reduce the opening financial plan deficit. There remains considerable risk in relation to the financial position and this is set out in the paper both in year and future years.**
  - **Discussion – The IJB is asked to discuss the risk to the ring fenced allocations and potential use of reserves.**
  - **Note – The draft financial plan for 2023/24 is currently being developed with a update being presented to the IJB Performance, Finance and Quality Committee on 13<sup>th</sup> April 2023.**

## **3. Background and Main Report**

### **Quarter Three 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 for the 2022/23 year. 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 The IJB continued to review its position against the approved Financial Plan which indicated a £15.191m in-year deficit. At Quarter 1 (Q1) and quarter 2 (Q2), the operational directorate positions worsened and further non-recurring flexibility was required to be identified to maintain (or improve upon) the projected out-turn in line the opening plan.
- 3.3 Key areas which required to be concluded during Q3 were noted as:
- The Q2 directorate overspend excluded any pressures on medicines (both Acute and Secondary) as this risk was still being assessed.
  - £5.5m of the non-recurring flexibility target was still to be identified to deliver the level required to maintain the £15.191m deficit.
  - Consideration of further action to be taken to further reduce the in year deficit.
- 3.4 This report provides an update of the forecast position as at Q3 financial review and

assesses the impact on the in-year position for the delegated budgets. The Q3 re-assessment of the financial position has now been concluded and, as per the table below, the position has worsened from Q2 by a further £1.5m, to deliver at the approved financial plan deficit as required by Scottish Government a further £1.5m of non recurring savings will require to be identified.

**Table 1 - Quarter 3 Update**

2022/23 Financial Plan	Approved Fin Plan	Q1	Q2	Q3
	£000s	£000s	£000s	£000s
Recurring Deficit Brought Forward	(22,191)	(22,191)	(22,191)	(22,191)
Net additional recurring investment required	(2,730)	(2,730)	(2,730)	(2,730)
<b>Total Recurring Deficit Anticipated</b>	<b>(24,921)</b>	<b>(24,921)</b>	<b>(24,921)</b>	<b>(24,921)</b>
Recurring Savings Target Set	3,730	2,917	2,917	2,917
<b>Target Recurring Deficit</b>	<b>(21,191)</b>	<b>(22,004)</b>	<b>(22,004)</b>	<b>(22,004)</b>
In-year Directorate overspend	0	(3,000)	(7,000)	(8,500)
Offset by Non-Recurring Flexibility required	6,000	9,813	13,813	15,313
<b>Target In-year Position</b>	<b>(15,191)</b>	<b>(15,191)</b>	<b>(15,191)</b>	<b>(15,191)</b>

3.5 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 funding to support the pay settlement has not been concluded.

3.6 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. This leave a £322k budget pressure to be funded in 2023/24.

### **In-year Directorate overspend**

3.7 The Q3 review has focussed on identifying any material changes in previous forecasts, in particular looking at medical, nursing and drugs expenditure across the Directorates. As a result the in-year directorate forecast for has worsened by a net £1.5m.

3.8 As reported as part of the Q2 position, the directorate overspend excluded any pressures on medicines (both Acute and Secondary) as this risk was still being assessed. This has now been concluded and a current forecast of circa £2.5m overspend is anticipated after utilising £1m of unallocated financial plan funding on a non-recurring basis as per the table below:

**Table 2 – Forecast of Medicines Spend and Variances 2022/23**

Medicines 2022/23	Core Funding	Forecast Spend	Forecast Variance	Central Funding Issued	Adjusted Forecast Variance
	£000s	£000s	£000s	£000s	£000s
Primary Care	30,723	33,723	(3,000)	500	(2,500)
Acute	18,473	18,973	(500)	500	0
Externals	1,750	1,750	0		0
<b>Directorate</b>	<b>50,946</b>	<b>54,446</b>	<b>(3,500)</b>	<b>1,000</b>	<b>(2,500)</b>
Financial Plan Funding - horizon scanning	500	0	500	(500)	0
Financial Plan Funding - externals	500	0	500	(500)	0
<b>Financial Plan</b>	<b>1,000</b>	<b>0</b>	<b>1,000</b>	<b>(1,000)</b>	<b>0</b>
<b>Total</b>	<b>51,946</b>	<b>54,446</b>	<b>(2,500)</b>	<b>0</b>	<b>(2,500)</b>

- 3.9 The biggest pressure on medicines is being seen within Primary Care and is driven by both price and volume increases. Prices have continued to show an upward trend both locally and nationally as a result of short supply issues, it is hoped that the trend plateaus over the final quarter and does not push the pressure further.
- 3.10 Efficiency work continues within the directorates however at this time there is some concern over the delivery of all schemes as originally planned, however at this time it is still forecast that the majority of this will be delivered and this will be kept under review. The prescribing workstream is under review and the development an identification of new savings schemes is top priority.
- 3.11 Funding set aside within the financial plan for drugs identified through horizon scanning has not been required in year and this has been issued on a non-recurring basis to reduce the forecast overspend. Expenditure for acute drugs through the external contracts (NHS Lothian and Glasgow principally) are also not being seen at the same level and it is likely that some of this cost is now being borne by the Acute Directorate, this funding has been issued on a non-recurring basis to reduce the forecast overspend. The recurring allocation of both of these will be reviewed as part of the 2023/24 budget setting process.
- 3.12 An improvement on directorate forecasts of £1.0m has meant the full impact of the medicines pressure has not flowed through into the position. The main shift is within the Acute directorate forecast for medical and nursing, at Q2 a number of allocations had still not been received and commitments were already made therefore the worst-case position was forecast, these allocations have now been received and the position adjusted.

#### **Non-Recurring Flexibility**

- 3.13 At Q2; £5.5m of non-recurring flexibility was still required to stay on target. As part of the work carried out for Q3 a total of £10.67m has been identified to date through the return of vacancies, release of central flexibility and as a result of the transformation workplan, specifically the continued closure of the community hospitals while the review of intermediate care provision is underway. Taking account of the worsening directorate position which requires to be covered in year to stay on target, £4.6m remains outstanding and currently unidentified.

#### **Further measures to reduce the deficit**

- 3.14 The Scottish Government have confirmed a further £1.4m allocation is estimated for the Boards share of the New Medicines Fund, at the time of drafting the opening plan the planning assumption was an NRAC share of £100m, this has been adjusted to £150m nationally. This can be used to offset the forecast deficit.
- 3.15 An accrual for annual leave costs based on the COVID circulars allowing additional carry forward of leave than is included within Terms and Conditions was included in the 2021/22 accounts. Costs incurred during the year will have been borne in the Directorate during the year and have not been identified separately. Pre-covid arrangements are now back in operation and therefore the accrual can be reduced for this financial year. Work is ongoing to assess this during Q4 however at this time £2m has been assessed as available to be released to reduce the deficit.
- 3.16 The expectation is that the two adjustments noted above are used to reduce the opening financial plan deficit, not deliver it; therefore, the adjusted in year forecast

would reduce to £11.8m as per the table below if the outstanding non recurring flexibility is identified.

**Table 3 – Quarter 3 Summary Position**

Q3	NHS Delegate	Council Delegate	Total IJB
	£000s	£000s	£000s
2021/22 Closing Recurring Deficit	(22,191)	0	(22,191)
2022/23 Net additional recurring	(2,010)	(720)	(2,730)
<b>2022/23 Opening Recurring Financial Gap</b>	<b>(24,201)</b>	<b>(720)</b>	<b>(24,921)</b>
Recurring Savings targeted	2,197	720	2,917
<b>22/23 Target Recurring Deficit</b>	<b>(22,004)</b>	<b>0</b>	<b>(22,004)</b>
N/R Directorate Overspends	(8,500)	0	(8,500)
Offset by N/R Flexibility now delivered	10,670	0	10,670
Further non-recurring flexibility still to be identified	4,643	0	4,643
<b>2022/23 In Year Forecast</b>	<b>(15,191)</b>	<b>0</b>	<b>(15,191)</b>
Additional sources identified by Scottish Government	1,400	0	1,400
Release of central adjustment - annual leave accrual	2,000	0	2,000
<b>2022/23 In Year Forecast Adjusted</b>	<b>(11,791)</b>	<b>0</b>	<b>(11,791)</b>

- 3.17 The IJB should consider what actions they can take and any funding they can identify to deliver the outstanding balance of £4.6m to return to plan.

### **Allocations**

- 3.18 To the end of January 2023, there are £7.5m of anticipated allocations outstanding from Scottish Government, the majority of which are ear-marked recurring allocations notified in previous years.
- 3.19 There are a number of these allocations (Alcohol and Drug Services, Mental Health strategy and Primary Care Improvement Fund) which have been affected by the change in SG approach to the utilisation of IJB reserves first before new funding is issued in year. In the majority of cases the reserves held by the IJB have commitments for future year costs against them. More detail is included in reserves section later in paper.
- 3.20 An allocation deduction has been made to return the Covid IJB reserve balance, more detail is included below. In addition, it re- stated that from 2023-24 onwards there is no additional Covid funding and costs for programmes such as Test and Protect and Vaccinations will be agreed in the coming weeks. No further update has been received on future allocations for these programmes.
- 3.21 The NHS Board were anticipating an allocation of £0.874m to cover the cost incurred through the GMS new patient weighting funding for four practices that returned to contractor led status. Practitioner and Counter Fraud Services who are responsible for the calculations have confirmed that the allocation is based on the situation at 1 April 2022 and 3 of the 4 practices were confirmed as not eligible for a new patient weighting at that time and therefore a timing issue has arisen in that the payment has been issued to practices but with no anticipated allocation to cover the cost charged in the financial year. The timing issue of £0.7m is currently being discussed with the external auditors. If no accounting solution can be found, then this will be pressure in year with a resulting underspend in 2023/24.

### **2023/24 Planning**

- 3.22 The draft financial plan is being developed to tie in with the need to get a position agreed for the start of the financial year. The position will be drafted and presented to the IJB on 23<sup>rd</sup> March 2023.
- 3.23 Further discussions between and IJB Chief Finance Officers and Scottish Government are currently taking place as the settlement does not provide sufficient resource to cover all pay and prices pressures for future years and the financial pressures previously presented in the financial update continue to increase.

### **Covid-19 costs**

- 3.24 During 2021/22, £16.3m (£0.4m related to Test & Protect) was carried forward through the IJB ring fenced Covid-19 reserve which was to be used as the first call for any in-year costs being incurred. This excluded 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.
- 3.25 A Scottish Government letter was received on 16th January confirming the return of IJB Covid reserves which will be carried out through a negative allocation from the NHS Board back to Scottish Government with local arrangements to be agreed with regards to the transactions between the IJB and NHS Board. An allocation reduction for NHS Dumfries and Galloway of £5.064m has been received.
- 3.26 Funding of £12.7m has been released from the reserve for 2022/23 to cover the costs of Covid-19 related services including the vaccination programme as per the table below.

**Table 4 – Covid-19 funding released 2022/23**

<b>Covid-19 Reserve</b>	<b>Q1</b>	<b>Q2</b>	<b>Q3</b>
	<b>£000s</b>	<b>£000s</b>	<b>£000s</b>
Vaccination Programme Costs	3,404	3,324	3,324
Public Health Response - Enhanced Public Health Capacity	440	440	440
Additional Infection Prevention and Control Costs	500	500	500
Urgent Care Hub Model – GP Out of Hours (OOHs) costs (call handlers)	190	190	190
Additional Staff Costs - Nursing & Medical	3,900	4,056	4,056
Cancer Patients - out of region costs	525	675	675
Social Work Costs	0	0	2,672
Other	91	91	91
NHS Test & Protect	0	0	766
<b>Total Distributed to date</b>	<b>9,050</b>	<b>9,276</b>	<b>12,714</b>
Still to Distribute	2,700	2,700	0
<b>Total</b>	<b>11,750</b>	<b>11,976</b>	<b>12,714</b>
<b>Reserve Balance</b>	<b>15,867</b>	<b>15,867</b>	<b>17,778</b>
<b>Balance to Return to Scottish Government</b>	<b>4,117</b>	<b>3,891</b>	<b>5,064</b>

- 3.27 Additional allocations were received during the year which have been included in the calculation of the return to Scottish Government therefore for the reserve balance has been increased to reflect this.

### **Reserves**

- 3.28 The IJB carried forward reserves of £16.41m into 2021/22 relating to the balance of the ringfenced allocations; increasing to £30.8m by the end of 2021/22.
- 3.29 As part of the Q3 review, a full reforecast of all reserve balances was undertaken to reflect the latest allocation position and our projected spend against each reserve heading identifying any potential flexibility and risks.
- 3.30 The table below sets out the year end forecast position based on our latest estimate of likely spend but will require updating once all allocations are confirmed and the final outturn is known.

**Table 5 – IJB reserve position at 31 March 2022**

<b>IJB Reserves</b>	<b>2020/21 Actual £'000</b>	<b>2021/22 Actual £'000</b>	<b>2022/23 Forecast £'000</b>
Integrated Care Fund	288	0	0
Mental Health Recovery & Renewal	0	2,352	410
Winter Planning Health & Social Care	0	3,344	1,838
Alcohol and Drugs Partnership	771	1,604	610
Primary Care Improvement Fund	380	2,262	682
Mental Health Strategy - Action 15	253	461	264
Community Living Change Fund	497	497	497
Adult Social Care Winter Plan	3,815	2,228	497
Social Care Fund	2,583	1,679	1,420
Covid-19 Funding/Local Mobilisation Plan	7,824	16,346	0
<b>Total IJB Reserves</b>	<b>16,411</b>	<b>30,773</b>	<b>6,218</b>

- 3.31 There was a request to increase the number of interim care beds that are commissioned to allow for additional capacity to support the reduction in delayed discharges and manage system flow. An additional £400k has been set aside from the winter funding to allow this to continue into the first six months of 2023/24.

#### **4. Conclusions**

- 4.1 The Q2 assessment confirms that the IJB remains unable to improve from the in-year deficit forecast of £15.191m given the further worsening of the directorate overspends and requires a further £4.6m non recurring flexibility to hold to the opening plan position.
- 4.2 Further adjustments to reduce the deficit further have been identified which could reduce the deficit to £11.8m if the IJB can identify the balance of non recurring flexibility.
- 4.3 £7.5m of anticipated allocations from Scottish Government remain outstanding at January 2023.
- 4.4 Planning is now underway on the 2023/24 Financial Plan and updates will be provided at the next IJB meeting in March.
- 4.5 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 still to be confirmed
- 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
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