

NHS Devon financial overview

Devon County Council Overview and Scrutiny Committee – 22 November 2022

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How the NHS is funded

The NHS is a publicly funded service and receives its money from Government through funds raised from taxation.

NHS England is responsible for making allocations to Integrated Care Boards using an established resource allocation methodology, based on formula-based allocations, that reflect the demand for health services based on the relative needs of populations. The major drivers of consumption of health resources are age, sex and deprivation.

NHS Devon (the Integrated Care Board) is currently judged to be receiving more than its fair share of the total money available to the NHS. This means it is likely we will receive less than national average growth in funding for the NHS each year until we reach an acceptable margin as determined by NHS England policy.

NHS Devon's core funding includes all the services NHS Devon commissions, such as acute, mental health, and community care. Primary care funding is shown in a separate column as it is delegated to NHS Devon from NHS England. Running costs is mainly staffing (approximately 80%) with the remaining covering estates and other non-pay costs.

Figure 1: NHS Devon allocation 2022/23 relative to the 'fair shares' target

Area	Core funding (£ million)	Primary care funding (£ million)	Running costs (£ million)	Total (£ million)
England ICB total budget	£91,533	£9,667	£1,081	£102,281
NHS Devon target budget (£)	£1,949	£205	£23	£2,177
NHS Devon target budget (% of England)	2.13%	2.12%	2.13%	N/A
NHS Devon actual budget	£2,065	£200	£23	£2,288
Distance from target (%)	-5.90%	2.53%	0%	N/A
Distance from target (£)	£116	-£5	£0	£111

In addition to the main NHS Devon allocation from NHS England, NHS Trusts receive income direct from other commissioners and commercial activities, increasing the total income for 2022/23 to £3.56 billion.

Figure 2: Total NHS in Devon Income 2022/23

Total NHS in Devon income 2022/23 (£ million)



Area	Income (£ million)	Percentage
NHS Devon allocation	£2,460	69.1%
NHS England specialist commissioning	£430	12.1%
Other commissioners	£280	7.9%
Other income	£390	11.0%
TOTAL	£3,560	100.0%

The NHS Devon allocation above includes the funding referenced in figure 1 plus additional national funding for specific national programmes such as elective recovery.

NHS financial regime

The NHS is required by the government to contain total expenditure within the department's allocation. It has achieved this in every year of its operation. Similarly, all NHS commissioning organisations (e.g. NHS Devon) are required to break-even as a minimum each year. NHS Trusts are required to break even, taking one year with another.

In reality, not all NHS organisations are capable of delivering break-even positions every year. This variation is managed through escalation to the regional tier of NHS England and ultimately nationally at NHS England. Annual plans are agreed to manage this variation and allows the NHS in aggregate to deliver the overall NHS budget. It is vital that plans agreed with NHS England, whether surplus or deficit, are delivered by all organisations in that year.

Where a commissioning organisation runs a deficit for the year, this does not appear on its balance sheet, but is effectively a debt owed elsewhere within the NHS and will be taken from its allocation by NHS England at a point in the future. Where a Trust runs a deficit, this is carried forward in its general reserves and will ultimately lead to liquidity issues if it is not recovered and addressed.

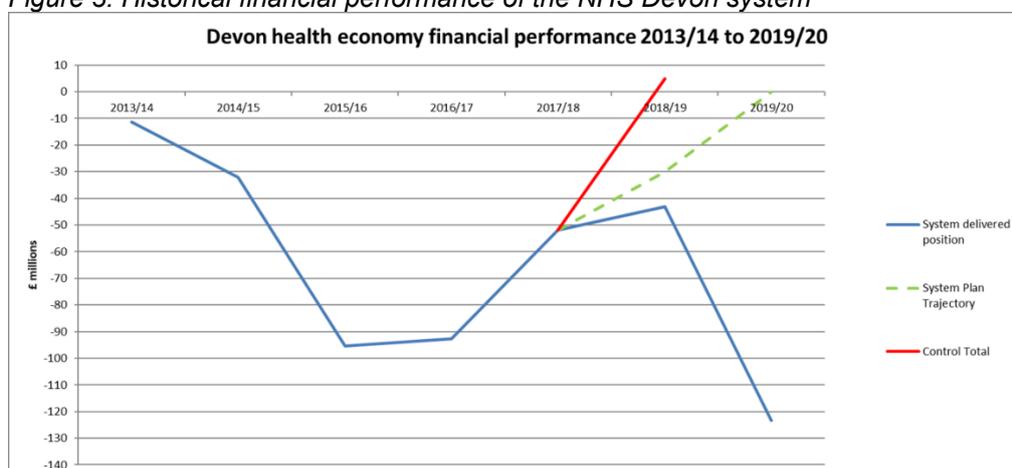
NHS Devon's financial position

Historical challenges

As illustrated in figure 3, NHS expenditure in Devon started to become financially challenged back in 2013/14, with a small deficit returned for the year. After a period of stabilisation and improvement over the three years 2016/17 to 2018/19, the position deteriorated sharply again in 2019/20.

The drivers of this position are many and complex, but fundamentally it is as a result of growth in expenditure, linked to growing service demand and operational efficiency, outstripping the growth in the allocation for the population.,

Figure 3: Historical financial performance of the NHS Devon system



A recovery trajectory was in process of being agreed with NHS England at the point of the pandemic in early 2020.

The 2020/21 and 2021/22 financial years were operated under a different financial regime, with significant extra resources provided by Government to support the NHS in dealing with COVID-19. This allowed financial balance to be achieved across the system in each of these years, however the ability to transform services to deal with the pre-pandemic financial issues was inhibited significantly over that period.

As we return to the regular funding regime and the additional resources start to be taken out, significant savings and efficiencies will be required to maintain a financially balanced system in a sustainable way.

It will not be possible to achieve this without considerable change to the way services are currently configured and delivered. This is a long process that would require support from all partners in the county, as well as engagement, and consultation, where appropriate, with local people and staff.

2022/23 operational plan

Operational planning for 2022/23 was particularly challenging. The ending of the COVID-19 financial regime referred to above brought with it a squeeze on resources and this, coupled with ongoing operational pressures and significant inflationary costs, resulted in a draft plan submission on 28 April 2022 showing a £105 million deficit.

NHS England provided additional funding of £27 million in recognition of inflation costs and a further £25 million of improvement was identified by the system, reducing the plan to a £53 million deficit.

A further push towards the expectation of break-even identified additional savings, cost reductions and mitigations of £35 million leading to the final plan submission of £18.2 million deficit.

This £18.2 million deficit sits with Royal Devon University Healthcare NHS Foundation Trust, as shown in the figure 4 on the following page.

Figure 4: NHS in Devon deficit by organisation

Organisation	Year to date			Forecast		
	Plan (£000)	Actual (£000)	Variance (£000)	Plan (£000)	Actual (£000)	Variance (£000)
NHS Devon	£0	£0	£0	£0	£0	£0
Royal Devon University Healthcare NHS Foundation Trust	-£1,960	-£1,958	£2	-£18,263	-£18,263	£0
University Hospitals Plymouth NHS Trust	-£3,864	-£3,864	£0	£0	£0	£0
Torbay and South Devon NHS Foundation Trust	-£2,884	-£2,884	£0	£69	£69	£0
Devon Partnership NHS Trust	-£648	-£648	£0	£0	£0	£0
TOTAL	-£9,356	-£9,354	£2	-£18,194	-£18,194	£0

Savings and efficiencies required

The plan is reliant on delivering £138.9 million of savings and efficiencies (equivalent to 3.7% of total system expenditure of £3.72 billion) to achieve the planned £18.2 million deficit.

In addition to the cost improvement programmes across a wide range of areas, the plan requires a significant (£28.2 million) reduction in COVID-19 related costs and £19.9 million of additional income through improved productivity, increasing elective output and earnings from the Elective Service Recovery Fund (ESRF).

Importantly, both of these areas are based on assumption of improved operational conditions from a reduction in the impact of COVID-19 and a reduction in the numbers of people in hospital who are medically fit to leave.

Figure 5: Savings and efficiencies at plan by category

Category	Plan					
	ICB £000	RDUH £000	UHP £000	TSD £000	DPT £000	Total £000
COVID	3,600	6,600	5,500	10,400	2,100	28,200
Pay Other		2,658	6,057	9,355	50	18,120
Unidentified	2,967	8,864		1,209	2,570	15,610
Non-Pay Other		52	7,000	2,688	390	10,131
Procurement		133	500	4,795	2,321	7,750
Workstream Stretch	8,000					8,000
Primary Care	7,704					7,704
SDF Review	6,000					6,000
Continuing Healthcare	3,945					3,945
Community Healthcare Commissioning Re	3,000					3,000
Income Efficiencies		484	2,500	4		2,988
Estates and Premises transformation		249	1,400		330	1,979
Service redesign					1,200	1,200
Medicines optimisation			1,000			1,000
Other	1,309	294	300		1,397	3,300
Total (Excluding ESRF)	36,525	19,335	24,257	28,452	10,358	118,927
Productivity ESRF		14,600	5,335			19,935
Total (Including ESRF)	36,525	33,935	29,592	28,452	10,358	138,862

Savings targets and delivery plans are agreed by organisations' boards and are based on identification of opportunity using comparative benchmarks such as *Model*

Hospital and Getting It Right First Time (GIRFT). Typically, 2% per annum is a reasonable expectation of achievement through these types of intervention.

The challenge for the whole of the NHS is currently higher than this due to the growth in spending to support the pandemic response, and higher still for NHS Devon due to the pre-pandemic underlying position.

This therefore requires a more radical, transformational approach to both demand side and supply side at **whole system level** to supplement what can be achieved through good governance of individual organisations. These programmes are identified, driven and governed by the system.

NHS oversight framework

The NHS oversight framework describes the national NHS approach (led by NHS England and NHS Improvement) to the oversight of Integrated Care Boards (ICBs) and Trusts.

Aligned with the NHS Long Term Plan, 2022/23 NHS operational planning and contracting guidance, the framework is built around six themes:

1. Quality of care, access, and outcomes
2. Preventing ill health and reducing inequalities
3. People
4. Finance and use of resources
5. Leadership and capability
6. Local strategic priorities

All ICBs and Trusts are given a rating from 1-4 (where 1 is the best) and provided support as required.

Rating	Description	Scale and nature of support needs
1	Consistently high performing across the oversight themes	No specific support needs identified
2	Plans that have the support of system partners in place to address areas of challenge	Flexible support delivered through peer support, clinical networks, and/or bespoke support package via regional hubs
3	Significant support needs against one or more of the six oversight themes	Bespoke mandated support, potentially through a regional improvement hub, drawing on system and national expertise as required
4	Very serious, complex issues manifesting as critical quality and/or finance concerns that require intensive support	Mandated intensive support delivered through the Recovery Support Programme

NHS Devon and the four NHS Trusts receive ratings as outlined in the table below.

Organisation	SOF rating
1. NHS Devon ICB	SOF4
2. University Hospitals Plymouth NHS Trust	SOF4
3. Royal Devon University Healthcare NHS Foundation Trust	SOF4
4. Devon Partnership Trust	SOF2
5. Torbay and South Devon NHS Foundation Trust	SOF3

NHS Devon is currently in segment 4 of the oversight framework and in receipt of mandated support from NHS England as set out in the national Recovery Support Programme (RSP).

The criteria to move from segment 4 to segment 3 have been agreed and require robust recovery and improvement plans to be in place with clear oversight via NHS Devon's governance framework.

Financial challenges across the system

The NHS in Devon is not alone in facing financial challenges.

At the start of November 2022, Devon County Council announced that it must save £73 million from its budget this financial year.

The council has budgeted to save about half of the amount so far, and anticipates that another £75 million of savings will be needed in the next financial year.

Plymouth City Council is facing similar challenges and is considering measures to address a £37 million budget gap for 2023/24. It also has a £15.5 million gap in this year's budget.

The growing deficits are due to rising demand for care and support, continuing costs of the COVID-19 pandemic, and rises in costs and inflation.

As well as affecting the councils and local residents, these budget issues have a knock on impact on the NHS. For example, if there is not enough social care in the community then people who are ready to leave hospital cannot be discharged safely.

This further increases the pressure on hospitals as there are fewer beds for people who need them, which can lead to delays in ambulance handovers.

Conclusion

The NHS system in Devon has been financially challenged for some several years.

We recognise this is unsustainable and we must return to a position where expenditure can safely be contained within the resources available for the population.

This will require significant change to both demand side and supply side factors and the whole system will be required to make the change necessary to deliver the savings required.

This is a long process that will require support from all partners in the county, as well as engagement, and consultation where appropriate, with local people and staff.