

# Medium term financial strategy - key objectives (1)

## 1. OUR AMBITION

Over the next 5 years we aim to secure two key objectives:

- To make a **tangible difference in reducing health inequalities and improving health outcomes by investing £135m recurrently by 2027/28** to support targeted prevention and inequalities focussed investment across our system.
- To **deliver sustainable financial balance across our system by the end of the 2027/28**, to provide a stable financial environment to support continued improvement and investment in healthcare and outcomes.

While the NHS financial framework remains uncertain, our commitment is that health inequalities and prevention investment will be at the core of our plans with a funding commitment that is considered to be ambitious, realistic, achievable and sufficient to deliver real change. The commitment to financial sustainability will also be vital to ensuring a robust and effective ICB delivering on its core responsibilities, secured through approaches that demonstrably improve productivity, efficiency and value through making the best possible use of the money we have available.

## 2. ADDRESSING INEQUALITIES IN INVESTMENT

After adjusting for relative need, **total healthcare spend at 5 of our 6 boroughs is over their fair shares target**, with only Lambeth under target, however the range is relatively small. At an expenditure area level, there are larger variations in spend, particularly for community and mental health services. This would suggest that **our focus on any rebalancing of investment should primarily be within boroughs rather than on redistribution of resources across boroughs**. Recognising this, we plan to focus on investment approaches that address known areas of inequity e.g. inequalities, prevention and mental health, but with opportunities for Local Care Partnerships to make full use of the flexibilities they have available to them to redesign pathways, with an ICB commitment to enabling allocative approaches to incentivise change and shift funding along the care pathway.

## 3. MAXIMISING OUR RETURN ON INVESTMENT

We will need to be more rigorous in the tests we apply to both existing and additional investment – with a specific focus on **return on investment and benefits realisation** focussing in particular on reducing health inequalities and improving health outcomes, the articulation and delivery of measurable benefits and outcomes to clear delivery timelines alongside the application of value for money and reprioritisation approaches.

# Medium term financial strategy - key objectives (2)

## 4. ONGOING FOCUS ON THE DELIVERY OF EFFICIENCIES ACROSS THE SYSTEM

Our acute sector particularly will continue to be under **significant financial and service pressure** resulting from underlying deficits, convergence requirements and demand and capacity imbalances but also with **significant opportunities** associated with the covid period productivity gap and wider efficiency opportunities. We will work collaboratively across the system to secure collective approaches, ensure the best possible use of available capacity and resource, address variation and improve productivity and efficiency. We may also need to consider more radical actions across site and service configurations.

We will apply an **equivalent rigour to community based care and other out of hospital services**, to ensure demonstrable improvements in productivity and efficiency across all parts of the system. In doing so our Local Care Partnerships will proactively take forward integration opportunities to secure demonstrable best value and reduce duplication.

## 5. USING OUR MEDIUM TERM FINANCIAL STRATEGY TO FACILITATE AND INCENTIVISE DELIVERY

We need to ensure that our **MTFS facilitates the delivery of our wider population and service ambitions**, in particular to reduce health inequalities and to provide operational and financial stability. Prevention and targeted investment should reduce pressure on our acute sector and thereby aid financial recovery. We recognise however that there will be **timing issues** as it is likely that the savings/efficiency requirements will exceed a realistic pace of delivery around population and pathway improvement – we will therefore need to consider **pace of change and transition** - the objective being to ensure we are not leaving parts of our systems exposed in terms of financial viability whilst also ensuring we are able to invest for the future, stay true to and not jeopardise our planned strategic investments.

## 6. INFLUENCING NATIONAL POLICY

As a system we will continue to work through national allocation approaches, question and challenge where appropriate, particularly in relation to convergence adjustments, shift to population based budgets and pace of change, to seek to **influence national policy and draw attention to the consequences**, in the context of the overall NHS financial framework, including budgets we will take on from NHS England associated with delegation.

# Our ambition - where do we want to be in 5 years?

Our Integrated Care Board and Integrated Care Partnership has endorsed a set of clear system wide ambitions and commitments around our Medium Term Financial Strategy. In doing so it is recognised that our MTFS will need to be driven by and run in parallel with the ICS's and national strategic frameworks and priorities, which continue to be developed in line with our Integrated Care Strategy, this NHS Forward View and developing national policy approaches. Notwithstanding this our agreed commitments are as follows:

- **FINANCIAL BALANCE**

- To secure a **financially balanced ICB** that has eliminated its recurrent underlying deficit and established a sustainable forward financial position that enables us to respond to the needs of our population effectively whilst also securing the financial health of the organisations that will provide care to the South East London and wider populations.
- To live within the resources allocated to us at system level each and every year with approaches that secure a **demonstrable annual improvement to our underlying position**.
- Aim to deliver a system financial position that is in the **top-quartile** nationally, inclusive of key productivity and efficiency metrics.

- **SECURING STRATEGIC, REBALANCED INVESTMENT**

- To look at all of our resources, including existing spend, to ensure targeted action within core budgets that **identify and address health inequalities**.
- Ensuring that our investment strategy moves over time to a position where we have **rebalanced spend between sectors and places** to meet the needs of our population, with a core focus on continuing to **increase our relative investment in mental health services to align investment to weighted population need**.
- Demonstrably shifting the balance of investment across prevention, early detection and intervention and managing ill health and in particular to increase our ring fenced **investment in prevention**
- Ensuring a minimum proportionate level of investment across services for **children and young people** and adults
- To **shift resource and care along the care pathway** to support community based care, invested in prevention, early detection and intervention and reducing inequalities.
- Targeting our investment to **maximise our return on investments**.

- **DRIVING AND INCENTIVISING CHANGE**

Utilising the opportunities of our ICB, Collaboratives and Places to lever, **drive and incentivise change, innovation, value, productivity and efficiency**.

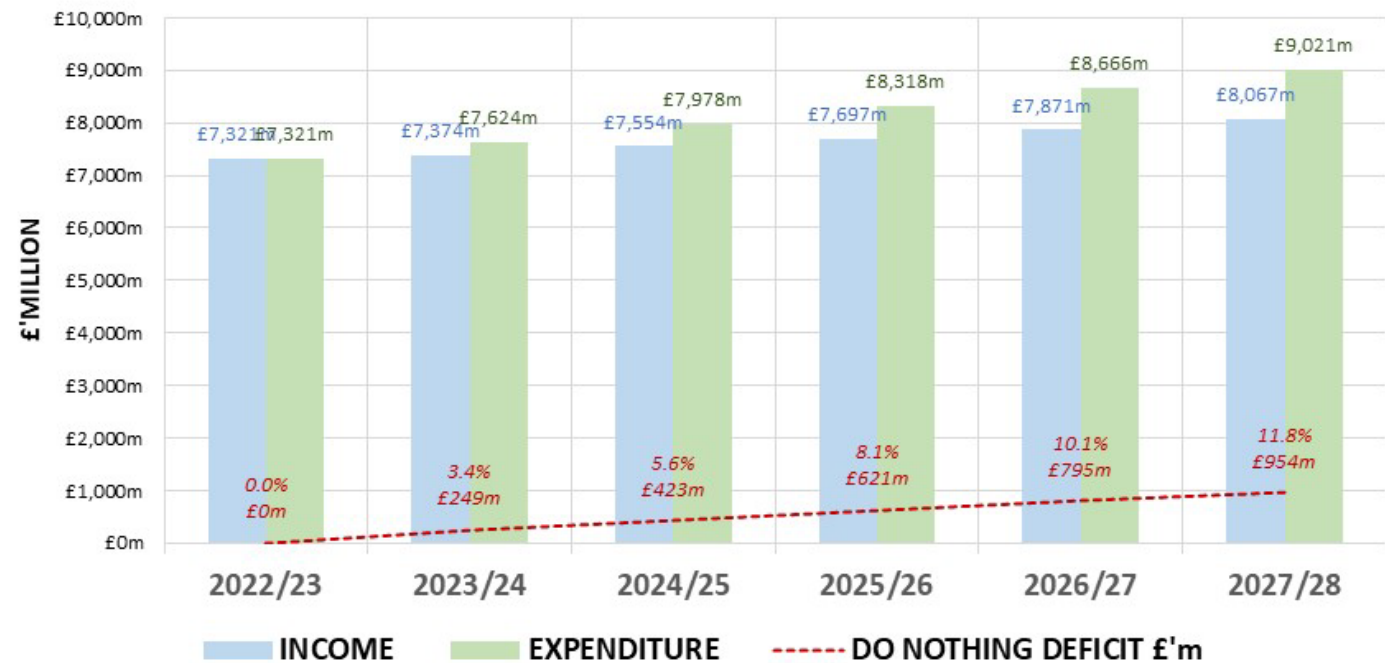
# Financial context

- **Up to 2019/20, before the pandemic, the SEL system faced significant financial challenges** and the second highest ICB deficit in London of £252m. The position by provider was differential but with underlying recurrent challenges evidence and building across the system. As a result SEL was in receipt of significant levels of national support funding from the Provider Sustainability Fund (PSF) and the Financial Recovery Fund (FRF).
- Over the period **since the pandemic the NHS financial regime has changed significantly** marked by significant short term **Covid funding** support, a shift away from **Payment by Results** contractual and payment forms, new recovery incentive arrangements through the **Elective Recovery Fund** and the replacement of national support funding arrangements with **system top-ups**. Furthermore, **convergence savings arrangements** have been introduced, for those systems spending more than their fair shares, to reduce systems' reliance on national support. Increased **collaborative planning arrangements** have accompanied these changes, with closer working within and across systems to deliver common strategic and financial objectives.
- **In 2022/23 the SEL ICB agreed balanced financial plans** both in total and at an individual organisational level, with a significant inbuilt challenge around planned efficiencies, income risks, the Elective Recovery Fund (ERF), and inflationary pressures. Whilst SEL will meet its overall 2022/23 break even target our in year financial position has been supported by the use of prior year non recurrent flexibilities and a high level of non recurrent cost improvement plan delivery. Our position therefore is a continuing underlying start year 2023/24 deficit.
- For **2023/24 we will be seeking to improve our underlying financial position** and to secure an ambitious in year savings programme with a focus on recurrent cost out and significantly improved productivity and efficiency, as a year 1 contribution to the delivery of our five year ambition. We will as part of our plan secure our planned investment in inequalities and prevention, alongside the other allocative commitments made in our MTFS.
- Looking ahead, there will continue to be **significant changes to the NHS financial framework** particularly in relation to the **delegation of specialised commissioning and Pharmacy, Optometry and Dental services (PODs)** to ICBs, accompanied by a shift to **population rather than host provider based funding**. These are expected to result in an **increase to the SEL ICB allocation of £800m per annum over the next two years**, a further 20% on the ICB's annual allocation. The funding outlook for specialised services is particularly challenging, due to the complexities associated with disaggregating national spend to populations and the expected funding shifts away from London ICBs and providers, so the increased allocation masks carry forward uncertainty and a likely financial challenge.
- The medium term financial outlook for the NHS remains uncertain, but we can expect the **continued shift to a lower growth environment** and with **continued convergence savings** requirements and reduced levels of Covid funding support. As more information is made available, we will need to **flex our plans** accordingly to address changing assumptions, requirements and priorities.

# What happens if we do nothing?

- As a system we are committed to the delivery of a sustainable recurrently balanced financial position.
- A **'do-nothing' scenario** has been modelled which shows that without the delivery of efficiencies and savings, we will have an **unmitigated system deficit of £249m (3.4%) in 2023/24, rising to £954m (11.9%) in 2027/28**.
- The **required efficiencies assessment** assumes:
  - A **carry forward recurrent efficiency requirement** from previous years
  - Efficiencies assumed within **tariff uplift** (1.1% per annum)
  - Unfunded **demographic growth** (1.0% per annum)
  - Required **convergence** savings (£45.6m per annum, £228m in total)
  - Loss of **covid income** (£100m)
- For 2023/24 we have been working to assess actual expected expenditure and will be undertaking further modelling around forecast expenditure, savings and productivity and efficiency opportunities for years 2-5 of our MTFs during 2023/24. This will support a full MTFs that spans income and expenditure, inclusive of an updated assessment of the potential financial challenge and associated risk.

**SEL ICS FORECAST INCOME, 'DO NOTHING' EXPENDITURE AND DEFICIT 2022/23 - 2027/28**



- In support of this wider MTFs we have undertaken work to understand and quantify future financial recovery and opportunities. This work has identified some examples of cost variation and efficiency improvement opportunities, including the **covid period productivity gap**. 7 potential system solutions have been identified that could help to reduce the system underlying deficit, in the areas of: **Workforce; Urgent & Emergency Care; Clinical productivity; Estates; Procurement; Mental Health; Commercial income**. We are taking forward these opportunities via system wide groups and the opportunities will be embedded within our forward plans.
- The likely scale of required efficiencies going forward means however that we are going to need to identify more ambitious and far reaching savings opportunities to those identified through our work to date, with the need for the ICB to focus on cost out rather than income in.

# Our allocative approaches

Our MTFs has been built on a set of assumptions guided by previous national indications, where available, and local priorities and approaches. These will need to be updated as more information becomes available and as our strategic objectives are developed. In summary our allocative approach is set out below.

- **ICB INCOME ASSUMPTIONS:**

- **Core allocation growth** of 3.4% per annum from 2023/24 to 2027/28.
- **Reduction in Covid income** from £100m in 2022/13 to £22m in 2023/24, £21m in 2024/55 and zero thereafter.
- Increase in the **elective recovery fund** by £18m in 2023/24 and maintained thereafter
- Reductions in the allocation each year recurrently associated with **convergence savings**, by £217m over the 5 years from 2023/24

- **ICB INVESTMENT ASSUMPTIONS:**

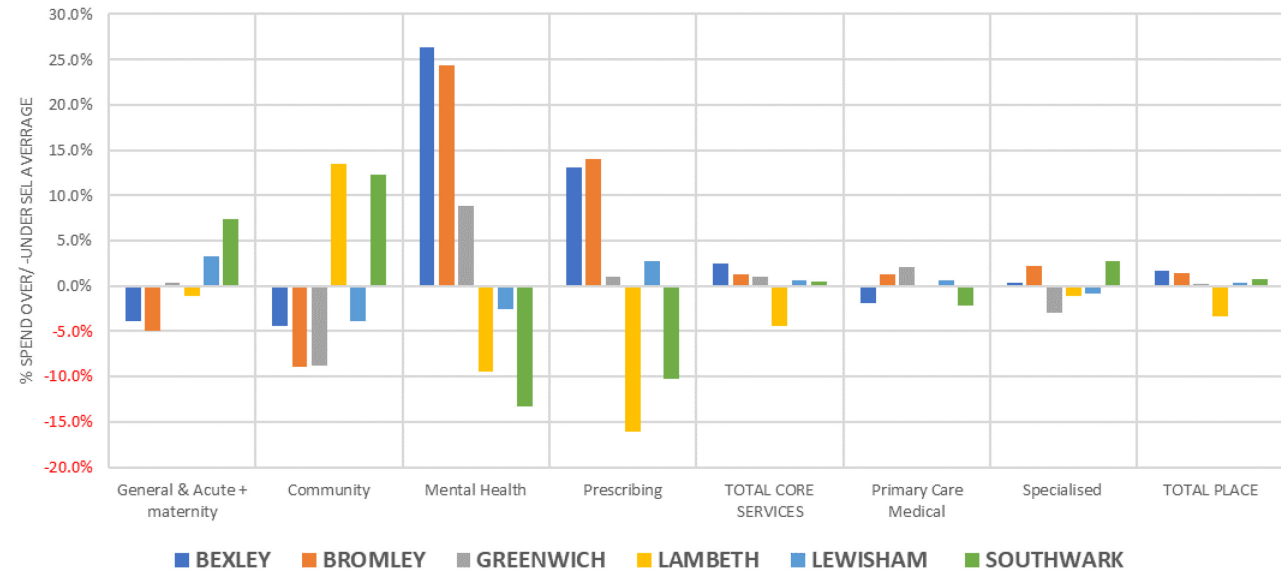
- We have assumed that **national guidance will continue to set prescribed uplifts** linked to ICB overall allocation growth for many areas of ICB spend, including mental health, and delegated primary care.
- We have assumed a minimum uplift of 1.7% inflation + 0.5% for community services, primary care prescribing and continuing care.
- We have earmarked recurrent resources each year to allow further **investment in health inequalities prevention** rising from £15m in 2023/24 to £30m per annum from 2024/25 to 2027/28 – proposals therefore secure a **recurrent investment budget of £135m a year by 2027/28**. This will eventually feed through into investment across our providers and budgets.
- We will target our investment to align with our approaches to **levelling up and addressing variation in spend when compared to weighted population need**, noting this may result in disproportionate investment in a particular area or place.
- Existing spend and all investments will be subject to **rigorous assessments of return on investments**, highlighting in particular a **focus on reducing health inequalities, delivery of measurable benefits and delivery timelines** alongside the application of value for money and reprioritisation approaches across core budgets. **Post investment review processes** will be initiated.
- All areas of ICB spend will be expected to contribute towards the delivery of **convergence savings** to help bring the system to financial balance on a sustainable basis.
- **Reduction in Covid spend**, in line with falls in the allocation
- The balance of investment is applied to acute services, after funding national prescribed uplifts and local priorities, as set out above. **Acute sector funding will fall over the period**, particularly because of reductions in Covid funding and the impact of convergence savings on acute providers.
- The **impact of excess inflation has been excluded** from our assessments at this stage. Our assumption is that additional expenditure will be matched by ICB income increases in this area.



# Improving outcomes & addressing inequalities

- As a system we are committed to ensuring that our approaches to the allocation of resources reflects a fairer distribution of resources across sectors and geography aligned to population need.
- Initial benchmarking of spend by expenditure area (acute, mental health, community primary care, prescribing) and by geography (for each of our 6 boroughs) has been undertaken based on pre-covid expenditure as the current best indicator of future spend and compared to national resource allocation formulae. **The analysis is complex and will need to be refined to reflect revised national allocation formulae as ICB allocations** are developed to reflect resource allocations and newly delegated services. These revision may change positions significantly so our modelling needs to be treated with some caution.
- However, based on the above information, at a borough level, **5 of our 6 boroughs are deemed to be over their fair shares target**, with only Lambeth under target. This suggests that our focus on any rebalancing of investment should primarily be within boroughs rather than the redistribution of resources across boroughs but with potential targeting of higher levels of growth or lower savings requirements to Lambeth than other boroughs, noting this will part be addressed through our proposed actions on mental health.
- **Our investment in mental health services is lower than the national allocation formula would suggest is required**, but with significant differences by borough. There is therefore a case for increased investment in mental health services over the medium term and this has been assumed within our plans but with a need to target the investment at those boroughs for which spend is currently lower than expected.
- Historically we have under invested in children and young people and will be further seeking to ensure a **proportionate investment approach across children and young people and adults as part of our MTFS**.
- Our plans further invest disproportionately in **community based care and out of hospital care services** when compared to acute services.
- In terms of approaches we will need to consider how much further we go on levelling up beyond addressing these specific issues - it will be important that Local Care Partnerships consider these issues within boroughs and linked transformation and integration opportunities.

**BOROUGH SPEND: % OVER/ -UNDER SEL AVERAGE (ADJUSTED FOR RELATIVE NEED)**



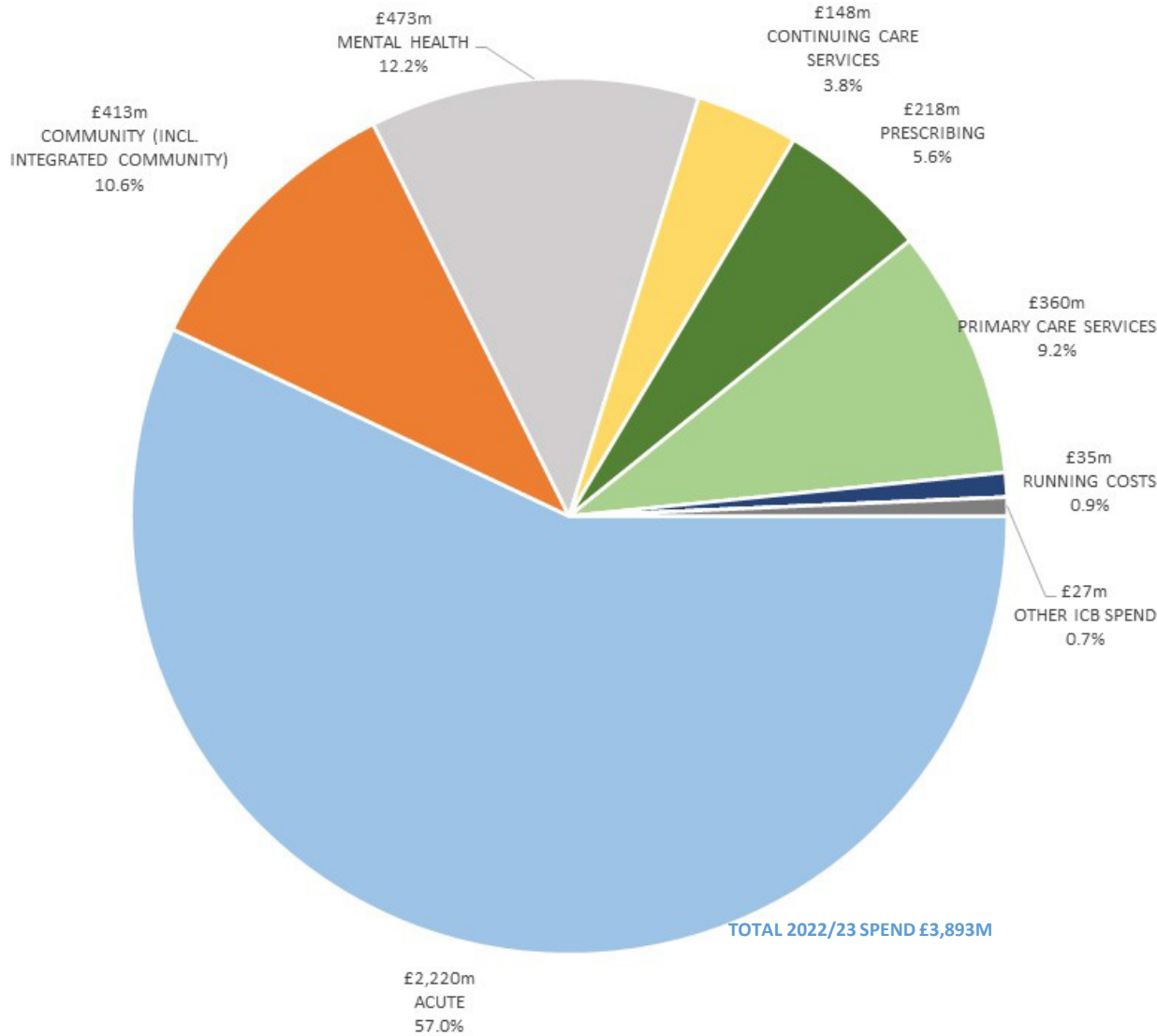
# Meeting our ambition – enablers

- In order to secure our financial and strategic objectives, **our ambition and focus will need to evolve** over the planning period:
  - **In years 1 and 2 (2023/24 and 2024/25), we will need to focus on stabilising our financial position** as we address the expected reduction in Covid funding, ensure we secure ERF income, deliver convergence efficiencies, address our brought forward underlying deficit and a range of vital prior commitments/issues we have not addressed recurrently and live within our means on newly delegated specialised, dental, optometry and pharmacy services.
  - The focus on financial stabilisation will also be reflected in our approaches to strategic investment, with **the financial headroom to invest in strategic priorities incrementally increasing over the five year period, generated predominantly in years 3 to 5.**
- It is clear that the **acute sector will continue to be under significant financial and service pressure** resulting from underlying deficits, convergence requirements and demand & capacity imbalances but with **significant opportunities associated with the covid period productivity gap**. As a result, there will **need to be collaboration across the acute sector**, for example around managing capacity on a system basis to drive efficiency and best use of available capacity, taking coordinated and systematic action to address variation and improve productivity and efficiency, reviewing our site and service configuration as well as the balance across hospital and community based care. We are keen to explore the scope for and benefit of approaches that pool acute income to incentivise change and system approaches plus secure further incentives to drive change, including reviewing current funding flows out of SEL and the scope for repatriation.
- We will need to **maximise opportunities at place level** including operating at scale, working at neighbourhood rather than practice level, refocusing core spending, working at scale to deliver efficiencies, breaking down barriers between funding sources (e.g. pooled budgets) and developing integrated multi disciplinary neighbourhood teams that break down organisational barriers and reduce duplication and drive forward integration opportunities.
- As a system we will need to consider whether **alternative funding and payment mechanisms** can incentivise collaborative working.
- We will need to up our game with regards the **identification and delivery of savings**, securing demonstrable productivity and efficiency improvements and a return on the investments we are making as a system. There will be a pace of delivery challenge and a transitional challenge and we will need to ensure we are not leaving parts of our systems exposed in terms of financial viability whilst also ensuring we are able to invest over the next 3-5 years for the future, recognising key to reducing demand is to improve population health and reduce inequalities.
- We will work to a set of **financial principles** to secure the ways of working and approaches required to underpin our ambition including:
  - Openness, transparency and peer challenge,
  - Demonstrating return on investments linked to improved outcomes and linkage to our strategic priorities, in particular addressing health inequalities.
  - A minimum efficiency expectation of 3% per annum and more in some years as required
  - Collaborative approaches to investment across the ICS
  - The sharing of financial management capacity and resources across organisations to help leverage the improvements required



# How will our spend change by 2027/28?

2022/23 ICB BUDGET



2027/28 ICB PLAN

