Chapter 6: Our Finances

Local context

In recent history, LLR has incurred financial deficits (overspends) in each year. In 2020/21 and 2021/22, a combination of extra funding for Covid-19 and reduced elective care costs (because, for example, appointments and surgeries were cancelled) enabled the system to achieve a break-even financial position.

In 2022/23, we planned to break-even, but additional challenges from inflation, workforce costs and emergency and mental health demand have led the system to revise our forecast, in year, to a £15m deficit.

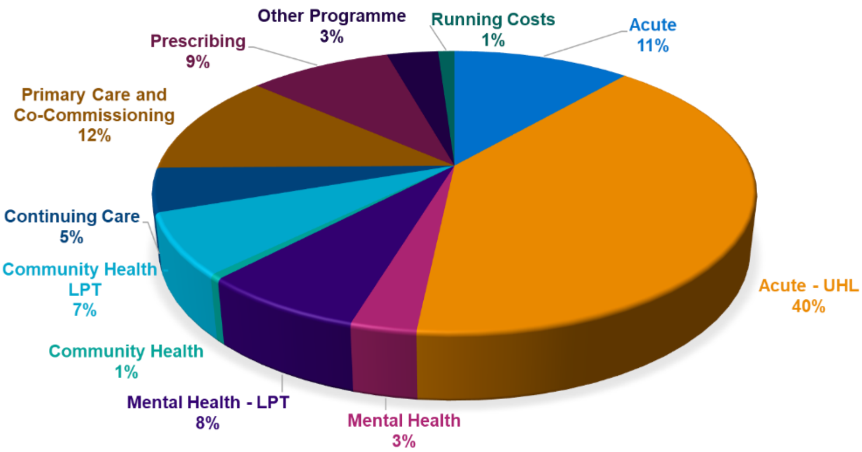
As a system, we are working well, collectively, and there is transparency and openness in the management of the financial position. We fully intend to retain these strong relationships and build further on them.

In 2023/24, our financial plan is extremely challenging, with an efficiency requirement of £131.5m, which is 6.4% of our system allocation. There are significant financial risks (£204m including non-delivery of some efficiencies) at the outset of the year which need to be mitigated to ensure delivery of the £10m planned deficit.

Taking all of the above into account, our financial strategy needs to build upon the system control we have developed and support transformation to bring the system into a sustainable position. The following sections describe how we will achieve that for the local health and care system.

How we currently spend our resources

Of the £2bn LLR has to spend, over half (51%) goes into providing hospital care, with 19% spent on community and mental health services and 21% across Primary Care Services (including Prescribing).



Achieving our financial goal

Our goal is to support the delivery of this 5YP within the resources available to us.

We will do this by:

- Investing in health inequalities and prevention;
- Reducing unnecessary attendances through interventions that keep people at home;
- Better flow – more timely discharge through use of Out of Hospital interventions, social care, etc.;

- New pathways – alternatives to improve the patient journey / digital first;
- Improving productivity/increase value in healthcare;
- Seeing more patients through the existing clinical capacity – repatriate spend on IS etc.;
- Achieving better value from enabling functions e.g. more efficient use of estate, reduced internal transactions;
- Reducing unwarranted variation in the costs of care;
- Investing more in upstream self-care to reduce significant costs and demand for services, as well as downstream, such as intensive hospital care, by ensuring timely and appropriate access to primary care services;
- Right sizing activity by addressing the issues that have occurred during covid such as backlog for elective care – using digital and other means so that this also improves the quality of the clinical experience; and
- Ensuring we have the infrastructure to support this by focusing on improving environment through upgrading our estate, maximising efficiency and best value through effective procurement, reducing carbon footprint and taking advantage of new innovative technologies.

Financial Principles

Our financial strategy is underpinned by the following principles to ensure that a sustainable financial position is achieved:

- Continuing to ensure strong financial control across the system, sharing openly and transparently our financial positions so we can best manage our finances collectively;
- Ensuring we set aside sufficient funding to support growth and to cover the costs of inflation;
- Productivity and efficiency must deliver at least 3% per year through moving to upper quartile in performance and elimination of waste;
- Consider the total resource allocation of £2bn across LLR and not just the use of new growth funds coming to the system;
- Evolve the role of partnerships to devolve resource through 'lead provider' collaborative arrangements as agreed for 'Urgent and Emergency Care';
- Set aside a small amount of additional funds for investment each year which following appropriate prioritisation will enable us to:
    - Invest wisely into programmes that can have a positive impact on our overall financial position and give the best value to local people;
    - Ensure we invest into prevention as well as treatment;
    - Invest in the areas where we can make a longer term impact in terms of both patient and financial benefits;
    - Support specific schemes, using a process for prioritisation and approval that will be consistently applied through a robust business case process; and
    - Focus service reconfiguration to enable reduced demand and reliance on acute services with more resilience in out of hospital and community based services.

Our financial challenge

Table 17, Modelling our system financial challenge

Our current Medium Term Financial Plan (MTFP) model (see Table 17), projects a recurrent system gap, by the end of 2027/28, of £227m. This is the case if we adopt a 'do nothing' approach to efficiency delivery from 2024/25 onwards. In addition, the plan includes deficit repayments of £22m so that the overall financial challenge, over the next 4 years, is £248m.

	System				
	24/25	25/26	26/27	27/28	5 Yr
23/24 Plan	(10,002)				
Remove 23/24 NR items	(70,706)				
Opening Surplus/(Deficit)	**(80,708)**	**(120,865)**	**(169,965)**	**(197,311)**	**(197,311)**
Tariff Inflation	**(36,798)**	**(38,449)**	**(40,591)**	**(42,411)**	**(158,249)**
Tariff Efficiency	**(7,848)**	**(8,088)**	**(8,334)**	**(8,589)**	**(32,859)**
Growth	**(47,075)**	**(49,325)**	**(52,213)**	**(54,704)**	**(203,317)**
Allocation increase	51,563	69,862	73,793	76,445	271,664
Investments (Elective Hub)	-	(23,100)	-	-	(23,100)
Additional efficiency	-	-	-	-	-
Efficiency schemes	-	-	-	-	-
Recurrent Surplus/(Deficit)	**(120,865)**	**(169,965)**	**(197,311)**	**(226,569)**	**(226,569)**
Deficit repayment	(7,264)	(7,264)	(7,264)	-	(21,791)
Total Surplus/(Deficit)	**(128,129)**	**(177,228)**	**(204,574)**	**(226,569)**	**(248,360)**
Total movement in period	**(47,421)**	**(56,363)**	**(34,610)**	**(29,258)**	

If we also include the efficiency challenge in 2023/24 (£131.5m), the full scale of the financial challenge, over the next 5 years, is £380m.

This model starts with an underlying exit position from 2023/24 of £81m deficit (thereby assuming full delivery of the 2023/24 plan).

There are many assumptions underpinning this model and it gives the best estimate we can generate of the scale of financial challenge we face.

Our proposed financial strategy – 5-year summary

The national ask, excluding any local adjustments, represents a pressure of £123m for the system within the 5 year period. Adding in local investments and pre-existing pressures deteriorates the position further to £248m (see Table 17).

Our proposed financial strategy (see Table 18) allows for a level of anticipated cost pressures as well as transformational investment which will support the delivery of a 3% efficiency. This has a beneficial impact on the value of uplifts applied as expenditure is reduced.

A further non-recurrent efficiency of £21.8m will be required to cover the historic deficit repayment

Table 18: 5 year financial strategy summary

5 Year Bridge Exluding 23/24 Risk	System £000
Uplift assumptions on I&E	(394,425)
Allocation increase	271,664
National ask	(122,761)
Elective Hub	(23,100)
Deficit repayment	(21,791)
23/24 Underlying pressure	(80,708)
Do nothing challenge	(248,360)
Cost pressures	(40,000)
Investments	(58,800)
3% efficiency	312,319
Impact on uplifts	13,059
NR efficiency required	21,791
Proposal challenge	10

Our proposed financial strategy – Year-by-year

Table 19: Year-by-year financial strategy summary (£000)

	24/25	25/26	26/27	27/28
Recurrent cost pressures	(10,000)	(10,000)	(10,000)	(10,000)
Recurrent Investment	(14,700)	(14,700)	(14,700)	(14,700)
3% Efficiency	75,603	77,008	79,127	80,581
Financial position	(77,226)	(71,947)	(40,575)	10

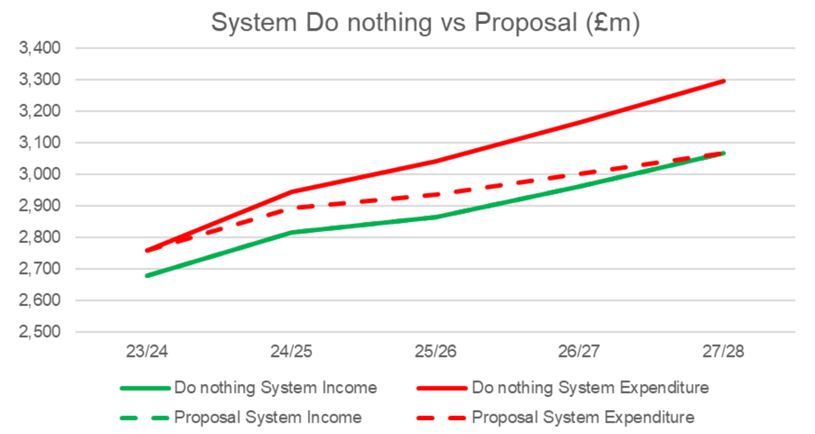
Table 19 and figure 17 illustrate the year-by-year proposed financial strategy for the system to reach a sustainable breakeven position by 2027/28 via gradual investment and efficiency delivery over the medium term.

The following assumptions have been made:

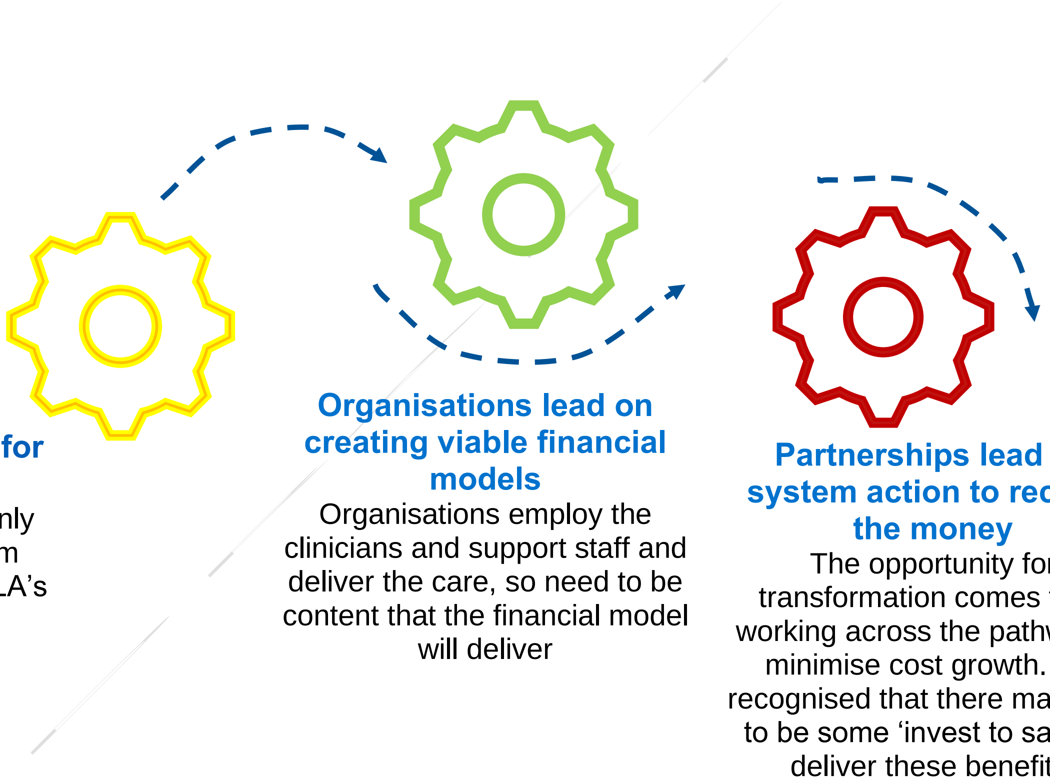
- Inevitable cost pressures to mitigate clinical risks have been provided for, recurrently, at £10m a year;
- Transformational investments have been funded, recurrently, at £14.7m a year; it is assumed the focus of these investments will be in line with strategic intentions of the five-year plan; and
- A 3% efficiency on costs has been applied across all areas and organisations each year.

Figure 17: Year-by-year financial strategy summary (£000,000)

It can be seen, from the above, that investing a small amount and planning to save a realistic amount, recurrently, each year, will result in deficits within each year but will ultimately lead to a sustainable position. As is the case in 2023/24, it is likely we will need to seek further opportunities (non-recurrent or otherwise) to improve the financial position, each year, so that we can attempt to deliver a breakeven position in each year.



Method of delivery - Partnerships



System Support for the Strategy
This strategy will only deliver if all system partners, including LA's are on board.

Organisations lead on creating viable financial models
Organisations employ the clinicians and support staff and deliver the care, so need to be content that the financial model will deliver

Partnerships lead on system action to recycle the money
The opportunity for transformation comes from working across the pathway to minimise cost growth. It is recognised that there may have to be some 'invest to save' to deliver these benefits.