

Financial Framework for Integrated Care Systems 2018/19

Governing Body meeting

5 July 2018

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Author	<p>Julia Newton, Director of Finance, Sheffield CCG</p> <p>Based on a detailed paper jointly prepared by Will Cleary-Gray, SY&BL ICS Director and Jeremy Cook, SY&BL ICS Interim Director of Finance</p>
Sponsor Director	<p>Maddy Ruff, Accountable Officer Dr Tim Moorhead, CCG Chair</p>
Purpose of Paper	
<p>The purpose of this paper is to summarise the proposals for the Financial Framework for Integrated Care Systems (ICSs) for 2018/19 as received from NHS Improvement and NHS England, highlighting potential risks, benefits and opportunities for organisations and systems. It asks Governing Body to approve two recommendations made by Sir Andrew Cash as South Yorkshire and Bassetlaw (SY&BL) ICS lead which support a way forward for the South Yorkshire and Bassetlaw (SY&BL) ICS to proceed in 2018/19, noting the context of these recommendations.</p> <p>All 12 partner NHS organisations within SY&BL are being asked to agree these same recommendations by the end of June to meet the NHS Improvement and NHS England timetable. As a result, Sheffield CCG Governing Body members received the paper on 24 June with a request for agreement via e-mail by 30 June, with formal endorsement at our 5 July Governing Body meeting.</p>	
Key Issues	
<p>South Yorkshire and Bassetlaw system has been assessed by the national regulators (NHS Improvement and NHS England) as ready to “go live” as an ICS in 2018/19 but to do so all organisations in the ICS need to sign up to a single financial control total with one of the financial framework options offered jointly by the national regulators. These options follow detailed and complex negotiations between the vanguard sICCs including SY&BL and NHSE/NHSI which have primarily been focussed on the rules for NHS trusts to earn Provider Sustainability Funding (PSF) linked to their individual and a system wide financial control total.</p> <p>There is no direct financial impact for the five SY&BL CCGs who collectively and individually agreed control totals with NHS England back in March 2018. However, if any of the CCGs were to fail their individual control total within the ICS system arrangements, this could mean the ICS failed its control total unless one or more other organisations delivered a compensating improved financial position and hence could result in a loss of PSF by providers. This does tie CCGs more closely into the system financial position and collectively managing financial risks which is one of the objectives of the ICS system.</p>	

The paper sets out in section 3 the financial and other benefits of SY&BL moving to a formal ICS in 2018/19, including the receipt of £7m Transformation Funding for the ICS.

It is important to highlight that if we progress to being a formal ICS this does not change any of the statutory financial and other obligations of the individual NHS organisations who are members of the ICS. It does not automatically change any of the existing formal governance arrangements for individual organisations. The impact on governance arrangements of a developing ICS will be considered in the coming months.

Is your report for Approval / Consideration / Noting

Approval

Recommendations

South Yorkshire and Bassetlaw Integrated Care System asks Boards and Governing Bodies to:

1. Confirm that the benefits of remaining an ICS are greater than the level of risk **and to enter into a single system (ICS) control total;**
2. Confirm that the preferred option of three options set out by NHSI/NHSE is option 3 - 50% partial Provider Sustainability Funding (PSF). Under this option the level of opportunity from transformation funding (£7.0m) is greater than the PSF at risk (£5.7m);

Noting the assurance given by NHS Improvement and NHS England for SY&BL to be designated as a 'go live' ICS;

Noting that significant progress has been made securing recognition of material issues associated with the new Financial Framework for ICSs in particular The Rotherham NHS Foundation Trust control total and the need to reduce the impact of risk in the way that the PSF is weighted;

Noting that a "system improvement plan" will need to be developed in return for the adjustment to the system plan figure in respect of the Rotherham FT control total;

Governing Body Assurance Framework

Which of the CCG's objectives does this paper support?

Strategic Objective - To ensure there is a sustainable, affordable healthcare system in Sheffield.

Are there any Resource Implications (including Financial, Staffing etc)?

There are no resource implications specifically for Sheffield CCG.

Have you carried out an Equality Impact Assessment and is it attached?

There are no specific issues associated with this report.

Have you involved patients, carers and the public in the preparation of the report?

Not applicable.

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Background

South Yorkshire and Bassetlaw (SY&BL) health and care system was designated as one of the first wave Accountable Care Systems in June 2017 in recognition for its effective leadership, relationships, capacity and capability, coherent system geography and focus on transformation and care redesign, its track record for delivery and strong financial management. This is a testament to organisations' history of working together which has culminated in strong partnership working including vanguards and commissioners working together collaborations.

On 30 April 2018 SY&BL system was assured as a 'go live' Integrated Care System (ICS) for 2018/19 against the following national criteria, pending outcome of local agreement for a system financial control total as part of criteria 2.

The five national criteria are:

- I. Effective leadership, relationships, capacity and capability
- II. Strong financial management
- III. Focus on care redesign
- IV. Track record for delivery
- V. Coherent and defined population

SYB ICS has received considerable national recognition for the work it has done to date and has recently been assessed as level 2 with level 3 the highest against the following criteria:

- I Effective leadership, relationships and capacity and capability - level 2/3
- II Strong financial management – level 2
- III Focus on care design – level 2/3
- IV Track record of delivery – level 2
- V Coherent and defined population – level 2/3

If the ICS were not to go forward this may have significant reputational impact from being seen as moving backwards

Joint national planning guidance was issued on 2 February 2018 and set out the new Financial Framework for ICSs (FFICS), a direction of travel for the NHS and expectation of systems working together and sharing risk together. A key "ask" was for all NHS organisations within the ICS to sign up to a single control total. This basically equates to adding up each of the individual organisational control totals to get an overall figure. As part of this individual control totals could be flexed at planning stage between organisations if agreed. The FFICS went on to link a

significant element of the Provider Sustainability Funding (PSF) which NHS Trusts can earn to delivery of the single control total. It should be highlighted at this point, that there are no direct financial implications for CCGs as CCGs do not have any equivalent funding to PSF which they are eligible to earn. The financial regime for 2018/19 does contain Commissioner Sustainability Funding (CSF) but this is only available non recurrently to CCGs in deficit as part of financial plans to bring such CCGs into financial balance and as no CCG in SY&BL is in this position it is not relevant to our ICS discussions.

Unfortunately, the FFICS in the planning guidance had no consideration or provision to mitigate risk for any organisation where there was a significant gap from their current financial position to their individual control total for 2018/19. This was very relevant to the potential SY&BL ICS, as Rotherham NHS Foundation Trust's (RFTs) draft plan was £24m adrift from its individual organisational control total excluding Provider Sustainability Funding (PSF), the SY&BL system would be required to over perform by £24m in order for other providers in to avoid losing £16.3m of PSF as a minimum. This unfavourable position led to extensive and complex negotiations between all potential vanguard ICSs and NHS England (NHSE)/NHS Improvement (NHSI). At the conclusion of these discussions, the Directors of Finance from both NHSE and NHSI wrote a joint letter on 15 May 2018 to all 10 shadow ICS Leaders with revised and improved proposals which have largely taken on board the key concerns raised by SY&BL colleagues. Thus, it is only now that individual organisational boards and governing bodies can be asked to consider whether we wish to "sign up to" a single control total for 2018/19 (and which option of three proposed by NHSE/I) and by doing so allow the SY&BL ICS to "go live" .

1. ICS Financial Framework Options and Implications for SY&BL

The joint letter from NHSE/NHSI set out the principles supporting the revised proposals as follows:

- The financial arrangements for ICSs must be fair to both ICSs and non- ICSs.
- NHS providers and commissioners within an ICS must take on collective responsibility for their system financial performance and jointly manage the risk of underperformance.
- ICSs – and the providers and commissioners within an ICS - should have clear and transparent incentives to manage and improve their individual and system financial performance.
- ICSs should not be made systematically worse off than non-ICSs as a result of agreeing to work within these arrangements – and there should be clear advantages for those who take on system risk within these arrangements.

The letter then sets out in detail three options for how Provider Sustainability Funding (PSF) can be linked to delivery of a system wide control total. It is important to understand that PSF has two elements in 2018/19 – an initial £1.8 billion nationally and then an additional £650m nationally (as confirmed in the planning guidance following the improved financial settlement for the NHS in 2018/19), giving a total of £2.45 billion nationally. In summary, the three options are:

Option 1: Full PSF: 70% of PSF available to trusts is linked to overall system financial performance and is a share of full £2.45 billion.

Option 2: Partial PSF - 70% of PSF available to trusts is linked to overall system

financial performance and is a share of extra £650m.

Option 3: 50% Partial PSF - 35% of PSF available to trusts is linked to overall system financial performance and is a share of extra £650m.

NHSE/NHSI would like to see all ICSs operating under Option 1 which they believe gives the greatest scope and flexibility for system financial management, as it provides the strongest alignment of financial incentives across an ICS because all organisations share in the financial success or failure of the ICS. They see partial or 50% partial options providing a more limited but still positive step towards this objective.

Thus, there are three revised options if SY&BL wishes to be a “live” ICS. The default option is only available to non-ICSs (or shadow ICSs). Our ICS team have worked through the complicated financial implications of the three options and compared them against the default (non ICS) position in the table below:

	Shadow ICS/ Non ICS			Full PSF			Partial PSF			50% partial PSF		
	£1.8b £m	£650m £m	Total £m	£1.8b £m	£650m £m	Total £m	£1.8b £m	£650m £m	Total £m	£1.8b £m	£650m £m	Total £m
SystemPSF(finance)	0	0	0	28.2	11.4	39.6	0	11.4	11.4	0	5.7	5.7
TrustPSF(finance)	28.2	11.4	39.6	0	0	0	28.2	0	28.2	28.2	5.7	33.9
TrustPSF(A&E)	<u>12.1</u>	<u>4.9</u>	<u>17.0</u>	<u>12.1</u>	<u>4.9</u>	<u>17.0</u>	<u>12.1</u>	<u>4.9</u>	<u>17.0</u>	<u>12.1</u>	<u>4.9</u>	<u>17.0</u>
	<u>40.3</u>	<u>16.3</u>	<u>56.6</u>	<u>40.3</u>	<u>16.3</u>	<u>56.6</u>	<u>40.3</u>	<u>16.3</u>	<u>56.6</u>	<u>40.3</u>	<u>16.3</u>	<u>56.6</u>
PSFlost -Rotherham FT	<u>5.8</u>	<u>2.4</u>	<u>8.2</u>	<u>5.8</u>	<u>2.4</u>	<u>8.2</u>	<u>5.8</u>	<u>2.4</u>	<u>8.2</u>	<u>5.8</u>	<u>2.4</u>	<u>8.2</u>
Variance to system improvement plan and PSF (lost)/gained												
Adverse £3.8m						-5.7			-5.7			-5.7
Adverse £7.6m						-11.4			-11.4			-5.7
Adverse £26.4						-39.6			-11.4			-5.7
Favourable £7.1m						2.4			2.4			2.4
Favourable £24m						8.2			8.2			2.4

In summary, trusts would have £39.6m, £11.4m or £5.7m PSF linked to system financial performance for options 1 to 3, thus, a decreasing amount of the PSF linked to system wide performance as opposed to individual trust performance as we move from option 1 to option 3.

The revised FFICS recognises where systems have one or more organisations with a significant gap with their control total and allows an ICS to have a system improvement plan where an adjustment is made to the control total. **For SY&BL ICS the proposal is that the aggregate deficit control total of £63.5m is in effect increased by £24m for Rotherham FT (its current plan’s distance from control total) to give a system improvement plan total of £87.5m - stated before any PSF is earned.**

The revised guidance states that where a system fails to meet its system improvement plan total PSF is lost at the rate of £1.50:£1. Under the 50% partial option an adverse variance against the system improvement plan would trigger the cap of £5.7m and the distribution of the lost PSF of £5.7m would be as follows:

	£m
Barnsley Hospital NHS FT	0.84
Doncaster & Bassetlaw Hospitals NHS FT	1.65
RDASH NHS FT	0.14
Sheffield Children's NHS FT	0.35
SHSC NHS FT	0.11
Sheffield Teaching Hospitals NHS FT	2.63
The Rotherham NHS FT	<u>0.00</u>
	<u>5.71</u>

In summary, trusts across SY&BL ICS have the ability to earn £56.6m PSF in 2018/19. How much of this relates to their own A&E (if relevant) and Financial Performance versus that which relates to system financial performance varies depending on the options. Due to concerns about delivery of system wide financial performance in 2018/19 the least “risky” of the options for trusts is option 3 which caps potential loss of PSF at £5.7m.

However, as happens currently, it is expected that commissioners and providers work jointly, particularly at place level, to manage financial risks during the year. Discussions will also need to be held at system level how financial risks are managed and mitigated. A System Efficiency Board is being set up to support the delivery of efficiencies at a system level for both providers and commissioners and disseminate best practice across the system. In addition NHSE have commissioned 135 days to support the delivery of additional QIPP schemes and mitigate risk for unidentified and high risk schemes across CCGs.

2. Summary of the key benefits of being an ICS

While there has been considerable focus on the detailed negotiations in relation to a single control total and its inter-relationship with PSF, it is important to summarise the key benefits moving forward as ICS include:

- Access to £7m of flexible funding (ie funding which does not have to be used for any specific purposes). This is a 20% increase from the initial transformation funding offer at the start of the planning round.
- Favourable access to capital funding
- Continued ability to shape and influence national policy
- Increased freedoms and flexibilities as ICSs develop
- Ability to continue our journey as a leading system

As a shadow ICS system in last financial year we received flexible transformation resources and there are already a range of pre-commitments with investment in work-streams and infrastructure to deliver system-wide transformation in line with the overall aims of the ICS. If this resource was lost, there is a high risk that these schemes would be materially scaled back and lose momentum. Organisations could be asked to contribute higher levels of support funding, but this would add to the overall system financial pressure.

Transformation funds do not represent a reserve for control total risk and are invested in

workstreams to accelerate transformation. This is currently being invested in the leadership team and workstream leads and support as well as progressing the Hospital Services Review.

3. Recommendations

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Paper prepared by Julia Newton, Director of Finance, based on detailed information provided by SY&BL ICS system

On behalf of Maddy Ruff, Accountable Officer and Dr Tim Moorhead, CCG Chair

June 2018