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NHS
North East and North Cumbria

REPORT CLASSIFICATION	✓	CATEGORY OF PAPER	✓
Official	✓	Proposes specific action	✓
Official: Sensitive Commercial		Provides assurance	
Official: Sensitive Personal		For information only	

NENC ICB FINANCE, PERFORMANCE AND INVESTMENT COMMITTEE

6 July 2023

Report Title:	**Elective Recovery Funding Approach 2023/24**

Purpose of report

This paper sets out the proposed approach to Elective Recovery Funding (ERF) for the financial year 2023/24, encompassing both the initial allocation of resource into contract values and the proposed approach to in-year transactions.

Key points

The 2023/24 priorities and operational planning guidance reconfirms the goals for elective recovery including delivery by 2024/25 of around 30% more elective activity than before the pandemic.

During the pandemic Foundation Trust contracts were set based on block funding arrangements, linked to levels of income from 2019/20, moving away from the tariff and activity driven model of Payment by Results. In order to incentivise an increase in Elective activity levels national guidance for the 2023/24 financial year and reinstated an activity model for Elective work.

Therefore Elective Inpatients, Daycases, Outpatient First Attendances and Outpatient Procedures will once again be funded at tariff as per the unit prices published in the NHS Payment Scheme.

Elective Recovery Funding (ERF) has been made available to each ICB to support the delivery of this ambition. At the national level, elective recovery funding was allocated to deliver an average 107% of 2019/20 levels of value-weighted elective activity. Each ICB therefore receives a system activity target percentage, and a share of the national funding allocation in order to achieve this goal.

Actual levels of performance against 19/20 levels varied by trust, with the majority operating below 19/20 levels as at the first half of 2022/23. The NENC ICS target overall is to reach 109% of 19/20 levels, higher than the average national ambition, and within that figure each Foundation Trust also receive their own target with the range in NENC varying between the minimum 103% and the maximum FT target of 113%. The ICB also has a target to retain Independent Sector levels of activity at 22/23 levels, which were 129% of 19/20 levels.

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NENC ICB received an allocation of £140.2m to deliver the ICS activity target of 109% of 2019/20 cost weighted activity levels. Based on tariff cost of the movement required from the 19/20 baseline to the 23/24 target, only £77m of this funding was required to deliver this target, with options for how to allocate the residual balance considered.

Through a working group, and through Director of Finance group discussion, a number of options for how to allocate the NENC share of ERF funding were developed. This paper proposes an approach to apportioning funding and also how that funding will be transacted in-year.

Due to the complexity of this issue and the pace with which decisions needed to be taken during the planning round, complete consensus on the correct approach was not reached amongst colleagues on either the ERF working group or the NENC Directors of Finance group. Majority agreement was instead used to move this proposal from a series of options to a final proposal, and final approval of approach was sought through the Chief Executive group.

Ultimately however, a number of Foundation Trust colleagues have raised issue with elements of the final proposal, and therefore the committee should consider the concerns raised and note that a consensus agreement was not reached on this issue.

Risks and issues

A number of concerns were raised by FT colleagues, as detailed in the paper. As no consensus could be reached, the concerns detailed reflect the proposal from a number of different viewpoints.

There are a number of risks inherent in both the proposed approach and submitted finance and activity plans for 23/24:

- Submitted activity plans assume the NENC system will achieve 112% of 2019/20 levels. To achieve this level of activity circa £18m of additional ERF income has been assumed in submitted finance plans. If 112% is achieved this income would be an additional allocation from NHS England.
- Independent Sector activity has continued to grow during 2022/23, and there is a risk that this continues to rise in 2023/24. This risk is mitigated by the IS activity traded at 100% of tariff, and the additional national allocation that would result as per the point above.
- Other factors such as industrial action, COVID, winter pressures may impact on the ability of the NENC system to achieve target levels of activity.
- If NENC system fail to achieve the 109% target, funding will be retracted by NHS England.

Assurances

The ERF working group will continue to meet to ensure any residual issues with monitoring and transacting this proposal can be addressed, with full representation from all FTs in the region.

Actual achievement of Elective Recovery Targets will be closely monitored throughout the year, so that any impact on financial positions are identified early, and escalated as appropriately.

Recommendation/action required

The Committee is asked to approve the proposed model for allocating Elective Recovery Funding and its in-year operation, noting the approach and concerns raised by colleagues.

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Acronyms and abbreviations explained						
ERF – Elective Recovery Fund MFF – Market Forces Factor CDC – Community Diagnostics Centre OOA – Out of Area OPFA – Outpatient First Attendance OPPROC – Outpatient Procedure						
Sponsor/approving executive director	David Chandler, Executive Director of Finance					
Report author	Phil Argent, Director of Finance (North)					
Link to ICB corporate aims (please tick all that apply)						
CA1: Improve outcomes in population health and healthcare						
CA2: tackle inequalities in outcomes, experience and access						✓
CA3: Enhance productivity and value for money						✓
CA4: Help the NHS support broader social and economic development						
Relevant legal/statutory issues						
Revenue finance and contracting guidance for 2023/24						
Any potential/actual conflicts of interest associated with the paper? (please tick)	**Yes**		**No**	✓	**N/A**	
If yes, please specify						
Equality analysis completed (please tick)	**Yes**		**No**		**N/A**	✓
If there is an expected impact on patient outcomes and/or experience, has a quality impact assessment been undertaken? (please tick)	**Yes**		**No**		**N/A**	✓

Key implications	
Are additional resources required?	Any additional funding required in-year will be provided by the national team through additional allocations, should targets be achieved
Has there been/does there need to be appropriate clinical involvement?	N/A
Has there been/does there need to be any patient and public involvement?	N/A
Has there been/does there need to be partner and/or other stakeholder engagement?	All Foundation Trusts in NENC ICS have been consulted and involved in discussing and developing this proposal.

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Version Control

Version	Date	Author	Update comments
1.0	18/06/2023	Phil Argent	Phil Argent drafted for comment by David Chandler
2.0	19/06/2023	Phil Argent	DC Comments reflected in v2
3.0	19/06/2023	Phil Argent	Updated to include risks section, for circulation to FT DoFs
4.0	25/06/2023	Phil Argent	Reviewed and updated by Phil Argent following FT DoF comments
5.0	26/06/2023	Phil Argent	Reviewed, minor amends and approved by DC Format checked by EH
6.0	28/06/2023	Phil Argent	Updated Key Points on Cover Sheet

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Elective Recovery Funding Approach 2023/24

1. Introduction

This paper sets out the proposed approach to Elective Recovery Funding (ERF) for the financial year 2023/24, encompassing both the initial allocation of resource into contract values and the proposed approach to in-year transactions.

2. Background

The 2023/24 priorities and operational planning guidance reconfirms the goals for elective recovery including delivery by 2024/25 of around 30% more elective activity than before the pandemic.

Elective Recovery Funding (ERF) has been made available to each ICB to support the delivery of this ambition. At the national level, elective recovery funding was allocated to deliver 107% of 2019/20 levels of value-weighted elective activity.

At individual trust level activity targets have been set at differential levels based on actual performance in H1 of 2022/23. For NENC ICS 2023/24 targets, quoted as a percentage against 2019/20 levels of activity, have been set as follows:

Organisation		2022/23 H1 performance (%)	2023/24 Target (%)
RTD	The Newcastle Upon Tyne Hospitals NHS Foundation Trust	100%	109%
R0B	South Tyneside and Sunderland NHS Foundation Trust	98%	108%
RTF	Northumbria Healthcare NHS Foundation Trust	107%	112%
RTR	South Tees Hospitals NHS Foundation Trust	98%	108%
RXP	County Durham And Darlington NHS Foundation Trust	90%	103%
QHM	NHS North East and North Cumbria ICB - Independent Sector	129%	129%
RNN	North Cumbria Integrated Care NHS Foundation Trust	108%	113%
RVW	North Tees And Hartlepool NHS Foundation Trust	106%	111%
RR7	Gateshead Health NHS Foundation Trust	93%	103%
RTX	University Hospitals Of Morecambe Bay NHS Foundation Trust	69%	103%
RRF	Wrightington, Wigan And Leigh NHS Foundation Trust	84%	103%
RXN	Lancashire Teaching Hospitals NHS Foundation Trust	76%	103%
RR8	Leeds Teaching Hospitals NHS Trust	83%	103%
R0A	Manchester University NHS Foundation Trust	82%	103%
RCB	York and Scarborough Teaching Hospitals NHS Foundation Trust	124%	124%
RVK	North East Ambulance NHS Foudation Trust	0%	0%

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As a system the overall target for NENC ICS is to achieve 109% against 2019/20 cost weighted activity levels.

In order to deliver this level of activity the ICB received an allocation of £140.2m, the apportionment of which was for local determination. The proportion of this funding required to actually deliver the targets above can be calculated from nationally published baseline data for 2019/20 activity levels, costed at 23/24 prices. The comparison of baseline data to target level for 23/24 can be seen below.

Org Code	Organisation Name	Baseline (19/20 @23/24 prices)*	National Target for 23/24 (additional %) **	
		£'000	%	£'000
RXP	COUNTY DURHAM AND DARLINGTON NHS FOUNDATION TRUST	79,516	3%	2,385
RR7	GATESHEAD HEALTH NHS FOUNDATION TRUST	42,942	3%	1,288
RNN	NORTH CUMBRIA INTEGRATED CARE NHS FOUNDATION TRUST	55,690	13%	7,240
RVW	NORTH TEES AND HARTLEPOOL NHS FOUNDATION TRUST	53,050	11%	5,835
RTF	NORTHUMBRIA HEALTHCARE NHS FOUNDATION TRUST	106,083	12%	12,730
RTR	SOUTH TEES HOSPITALS NHS FOUNDATION TRUST	82,151	8%	6,572
R0B	SOUTH TYNESIDE AND SUNDERLAND NHS FOUNDATION TRUST	116,834	8%	9,347
RTD	THE NEWCASTLE UPON TYNE HOSPITALS NHS FOUNDATION TRUST	165,508	9%	14,896
RX6	NORTH EAST AMBULANCE SERVICE NHS FOUNDATION TRUST	0	-	0
INTRA NHS PROVIDER TOTAL		**701,774**	**9%**	**60,293**
RTX	University Hospitals Of Morecambe Bay NHS Foundation Trust	2,860	3%	86
RRF	Wrightington, Wigan And Leigh NHS Foundation Trust	1,500	3%	45
RXN	Lancashire Teaching Hospitals NHS Foundation Trust	347	3%	10
RR8	Leeds Teaching Hospitals NHS Trust	315	3%	9
R0A	Manchester University NHS Foundation Trust	253	3%	8
RCB	York and Scarborough Teaching Hospitals NHS Foundation Trust	103	24%	25
INTER NHS PROVIDER TOTAL		**5,378**	**3%**	**183**
QHM	ICB - IS Providers	56,822	29%	16,478
ICS TOTAL		**763,974**	**10%**	**76,955**

As can be seen in the table above, only circa £77m of the £140m allocation is required to deliver the activity target. Therefore the focus of this paper is on two issues:

1) How to apportion the ERF allocation
2) How to transact this funding in-year

3. National Guidance

At the national level, funding has been allocated to commissioners to deliver 107% of 2019/20 levels of value-weighted elective activity across the following settings:

- elective ordinary and day cases
- outpatient procedures with a published tariff price
- first outpatient attendances

The ERF element of commissioner allocations has been distributed on a fair share basis. Funding allocations will also be used to deliver wider elective pathway activity, which do not form part of the 107% target. This includes outpatient follow-ups, diagnostics, chemotherapy, radiotherapy and critical care related to elective

procedures. The total funding allocations are designed to fully fund the 107% elective activity target in providers, as well as the wider elective care pathway costs required to deliver the 107% target.

3.1 Issue 1 – How to apportion the ERF allocation

National FAQ guidance dictated that the 2023/34 ERF allocation should be split based on proportional shares of provider 19/20 baseline values, with marginal cost (75%) recognition of 22/23 activity above that year's targets. However NHSE confirmed that this guidance was only the default for out of system relationships, but for intra-system any sensible agreed approach between parties can be followed as long as the principles of PBR are followed for activity based elements.

3.2 Issue 2 - How to transact this funding in-year

For almost all NHS provider/commissioner relationships, national guidance dictates that payment for activity in 2023/24 will be on the basis of aligned payment and incentive (API) fixed and variable elements:

- The fixed element will cover funding for the expected level of activity for all service outside the scope of the variable element.
- The variable element will fund all elective ordinary and day cases, outpatient procedures and outpatient first attendances, plus the wider pathway costs including chemotherapy, unbundled diagnostic imaging and nuclear medicine activity.

The variable element is funded through ERF allocations.

NHS providers will then earn 100% of NHS Payment Scheme unit prices, adjusted for MFF values, for all elective activity delivered within scope of the variable payment. This is uncapped and will include activity within scope of the activity target and the wider elective pathway activity that is payable on an activity basis. Other wider pathway costs (such as outpatient follow-up activity) are part of the fixed payment and not subject to change.

4. Approach followed to develop the proposed approach for 23/24

An ERF working group was established to look at options re apportionment of the ERF allocation in its entirety. Options considered included:

- **Option 1** - Fair Shares apportionment based on percentage share of the overall NENC target for 2023/24
- **Option 2** - Apportion based on 22/23 actual performance compared to 19/20 levels of activity
- **Option 3**- Apportion based on distance from current performance to 23/24 target, with that distance calculated as either:
    - 3a –the percentage increase in performance required
    - 3b – a casemix adjusted financial value of that increase

- **Option 4** - Rebase ERF allocations based on value required to achieve 23/24 target, calculated from national baseline data, then apportion the balance based on either:
    - 4a – Apportion remaining balance based on 22/23 share of ERF funding
    - 4b – Apportion the balance based on distance from target using H1 22/23 actual data
- **Option 5** – Use the nationally shared baselines to calculate the cost of the 23/24 target percentages and apportion the allocation on that basis.

Given the complexity of multiple options, the views in the working group were split, largely favouring Options 3 and 4. The workings were presented to the NENC ICB Directors of Finance group during the planning round, who favoured Option 4 given its focus on rebasing allocations to match funding required to deliver targets.

It was further agreed that the remaining balance would be first top-sliced to fund:

- Early adopter Community Diagnostics Centre (CDC) sites that were established on FT premises that would no longer be eligible for national reimbursement through the CDC scheme (£11.4m)
- Fair share of allocation applied to Out of Area FTs as per guidance
- Funding for NEAS to recognise the increased cost of ambulance provision related to achieving elective targets.

Finally, after taking account of the top-sliced values two further options were added to 4a and 4b for how to share out the remaining balance:

- A 50/50 hybrid of 4a/4b
- 4c – The remaining balance to be apportioned based on the 23/24 target movement from 19/20 baseline.

Option 4c gained the most support within the NENC DoFs meeting and was escalated to the Chief Executive meetings for final agreement. This option was ultimately supported by Chief Executives as it maintained a link to actual performance for the full sum of the allocation as well as incentivising additional activity over 19/20 baseline which is seen as key to reduce waiting times.

The full details of Option 4c are as follows:

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5. Final Proposal for ERF in 2023/24 – Option 4c

The £140.2m ERF allocation for the ICB has been apportioned into starting contract baselines, split in the following way:

		£'000
Funding to achieve Elective Activity target, apportioned based on 23/24 activity target relative to 19/20 baseline	National Target	76,955
	Locally Agreed Stretch Targets	3,976
	Fair Share apportionment for Out of Area providers	825
		81,756
CDC funding for those sites who will not receive national funding in 23/24		**11,391**
NEAS funding for additional impact of Elective Recovery, to cover the additional costs of discharge vehicles and patient transport		**3,063**
The remaining "residual" funding allocation has been apportioned to baselines in the same way as the Elective Target funding, based on 23/24 activity target relative to 19/20 baseline, to cover wider pathway costs		**43,990**
		140,200

A breakdown by organisation is shown in the below table:

Organisation		Elective Target Funding	CDC	NEAS / OOA	Residual balance
RTD	The Newcastle Upon Tyne Hospitals NHS Foundation Trust	14,896			10,106
R0B	South Tyneside and Sunderland NHS Foundation Trust	9,347	3,783		6,341
RTF	Northumbria Healthcare NHS Foundation Trust	12,730	520		8,636
RTR	South Tees Hospitals NHS Foundation Trust	6,572			4,459
RXP	County Durham And Darlington NHS Foundation Trust	6,361	7,088		4,316
QHM	NHS North East and North Cumbria ICB - Independent Sector	16,478			
RNN	North Cumbria Integrated Care NHS Foundation Trust	7,240			5,300
RVW	North Tees And Hartlepool NHS Foundation Trust	5,835			3,959
RR7	Gateshead Health NHS Foundation Trust	1,288			874
RTX	University Hospitals Of Morecambe Bay NHS Foundation Trust	525			
RRF	Wrightington, Wigan And Leigh NHS Foundation Trust	275			
RXN	Lancashire Teaching Hospitals NHS Foundation Trust	64			
RR8	Leeds Teaching Hospitals NHS Trust	58			
R0A	Manchester University NHS Foundation Trust	46			
RCB	York and Scarborough Teaching Hospitals NHS Foundation Trust	40			
RVK	North East Ambulance NHS Foudation Trust			3,063	
TOTAL		**81,755**	**11,391**	**3,063**	**43,990**

Target values are assumed in starting contract baselines, and any in year variation will be paid/deducted at 100% of tariff for those Points of Delivery within target (eg Elective Inpatient, Daycase, OPFA, OPPROC, plus applicable Elective Best Practice Tariff).

The residual funding linked to wider pathway costs will also be redistributed based on actual in-year performance above 19/20 baseline levels.

As the full allocation is being played out to contract baselines to cover the wider elective pathway costs all other elements assumed variable in national guidance that do not apply to the activity target, are assumed within these contract totals. Whilst considered variable in national guidance, these areas will not automatically be transacted in-year as the residual funding has effectively been allocated upfront to cover this activity. Instead these areas will be monitored and where this causes undue

financial hardship in-year this will trigger a system discussion to identify and recommend to the FPI Committee an approach to this pressure, rather than an automatic call on ICB funding. This applies to all variable elements outside the scope of the activity target:

- Chemotherapy
- Diagnostic Imaging
- Nuclear Medicine
- Excluded Drugs and Devices and procedures.

Community Diagnostics Activity linked to the £11.4m top-sliced funding will continue to be monitored and traded as per the national approach to wider CDC. This will be traded at national tariff prices, up to a capped maximum of £11.4m. Beyond this level further approval would need to be sought via the Finance, Performance and Investment Committee. Should actual costed activity fall short of the £11.4m the balance will be combined with the residual funding for pathway costs and redistributed accordingly.

It is important to note that if the ICS performs at over 109% of target as a system this will trigger extra NHSE funding however that this is the only additional funding possible. Any differences in local figures and NHSE figures which leads to less additional funding for PBR than we locally think is correct will be reviewed and challenged as appropriate however NHSE do not recognise local figures so generally we will work with and trade using national figures. If as a collective we think local figures are more accurate any differences in funding levels allocated must come from the total ERF fund if we believe our figures are correct.

If NENC perform under 109% as a system and funding is clawed back by NHSE, we will need to ensure that only the remaining total funding within the system is played out to Providers/ICB budgets.

To allow local monitoring of this, we are proposing removing all local business rules to ensure the calculation method mirrors the national approach to avoid confusion / multiple versions of performance being issued.

In year, we are proposing using local monitoring to aid forecasting and reporting on a monthly basis, but will cash up quarterly in line with the national timescales and distribution of national view on performance against targets.

Targets will be phased throughout the financial year in line with nationally published phasing, to be included in Schedule 3 of the national standard contract.

6. Concerns re proposed approach

The proposed approach is complex and given both the number of options initially considered and the pace with which decisions needed to be taken during the planning round, complete consensus on the correct approach was not reached amongst colleagues on either the ERF working group or the NENC Directors of Finance group. Majority agreement was instead used to move this proposal from a series of options to a final proposal, and final approval of approach was sought through the Chief Executive group.

Ultimately however a number of Foundation Trust colleagues have raised issue with elements of the final proposal. For example:

- Transacting the "residual" funding linked to achievement of activity counted in the ERF target has the potential to underfund or overfund those areas covered by the residual pathway, for example unbundled diagnostics activity, that will not necessarily be linked to Elective activity levels.
- Not all colleagues agree with the proposal to transact the residual element in year at all, instead preferring to allocate into starting contracts and leave this element unchanged for the year. Effectively viewing any change to the shares of the residual funding as akin to transacting actual activity at higher than 100% of tariff, given the link to actual performance. Some colleagues felt that whilst the initial apportionment was fine, that they had not agreed to using this method for in year transactions.
- The opposing view held by other colleagues was that leaving the residual element fixed creates an unfair bonus for some FTs that would remain in place regardless of real activity achievement, and therefore any agreement over how to share this funding would be hard to achieve.
- There are elements of the in-year operation of this rule that are not yet clear due to lack of national guidance. The ERF working group therefore continue to meet to work through these remaining issues, such as: data source for transacting, timeliness of data, how forecasting will operate as all FT's positions will be linked through this rule, how year-end closedown will work, impact of strike days on achievement of targets.
- The proposed methodology does not reflect respective step changes in activity requirement for organisations between 22/23 outturn and 23/24 target, instead focussing on the net movement from 19/20 baseline. This could disadvantage trusts who delivered lower activity levels in 22/23 as they will have further to go to achieve the target.
- FutureNHS planning materials provided optional "fair share" split of allocations which produced different results.
- Concern that the proposal moves away from the national approach that ERF target activity and supporting pathway activities are charged at tariff and excluded drugs and devices are transacted as pass through costs. This proposal does assume 100% of tariff for ERF target, and apportions the extra allocation out upfront to cover costs of supporting activity and drugs/devices. Rather than a direct unit charge, this funding is assumed to cover these costs with the ability for FTs to raise financial issues in year should this prove materially different. Whilst this is still in keeping with the spirit of national guidance the possible requirement to agree a "locally agreed adjustment" to national guidance will be explored.
- Finally concerns were also raised over the potential for three distinct and different ERF arrangements in year between the NHS England approach for Specialised/Direct Commissioning, the Humber and North Yorkshire ICB approach and the NENC ICB approach.

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Ultimately the Chief Executive group felt that Elective Recovery and reducing waiting lists was a key priority for 2023/24 and therefore any funding should be aligned to that aim, and the proposal outlined above was deemed closest to that ambition.

7. Risks

There are a number of risks inherent in both the proposed approach and submitted finance and activity plans for 23/24:

- Submitted activity plans assume the NENC system will achieve 112% of 2019/20 levels. To achieve this level of activity circa £18m of additional ERF income has been assumed in submitted finance plans. If 112% is achieved this income would be an additional allocation from NHS England.
- Independent Sector activity has continued to grow during 2022/23, and there is a risk that this continues to rise in 2023/24. This risk is mitigated by the IS activity traded at 100% of tariff, and the additional national allocation that would result as per the point above.
- Other factors such as industrial action, COVID, winter pressures may impact on the ability of the NENC system to achieve target levels of activity
- If NENC system fail to achieve the 109% target, funding will be retracted by NHS England.

8. Recommendations

The Committee is asked to approve the proposed model for allocating Elective Recovery Funding and its in-year operation, noting the approach and concerns raised by colleagues.

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Date: 18/06/2023