

NHS England and NHS Improvement Board meetings held in common

Paper Title: 2022/23 NHS Operational Planning Guidance and financial allocations

Agenda item: 4 (Public session)

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Paper type: Discussion

Organisation Objective:

NHS Mandate from Government	<input checked="" type="checkbox"/>	Statutory item	<input type="checkbox"/>
NHS Long Term Plan	<input checked="" type="checkbox"/>	Governance	<input type="checkbox"/>
NHS People Plan	<input type="checkbox"/>		

Executive summary:

This paper updates the Boards on the planning process for 2022/23 including financial allocations and the methodology that is being used to distribute resources between Integrated Care Boards

Action required:

The Boards are asked to note the information provided in the report

Background

1. Through the COVID-19 pandemic, temporary finance, contracting and planning arrangements have been in place to support systems to focus on responding to immediate operational challenges.
2. These arrangements have been effective but have not provided certainty for systems to plan more than 6 months in advance. As we approach 2022/23 the planning and financial arrangements need to enable full-year planning within the available resources and support delivery on NHS priorities.

Recommendation

3. The Boards are asked to note that:
 - The 2022/23 priorities and operational planning guidance has been published, and final plans are due to be agreed by the end of April.
 - A revised financial framework is being implemented, supported by system financial allocations. Multi-year allocations will be produced later this year.

Planning guidance and priorities

4. We published the 2022/23 priorities and operational planning guidance on 24 December 2021. The document sets out 10 priorities for the NHS as we continue to:

- rise to the challenges of restoring services and make progress against our LTP ambitions, as well as meeting the new care demands and reducing the care backlogs that are a direct consequence of the pandemic
 - build the capabilities and effective partnership working that will drive the shift to population health management, targeting interventions at those groups most at risk, and supporting health prevention as well as treatment.
5. Our ability to fully realise these objectives is linked to the ongoing level of healthcare demand from COVID-19. We will keep this under review as the pandemic evolves.

Financial allocations

Overall NHS settlement

6. The total NHS budget for the years 2022/23 to 2023/24 was set in the Spending Review in October 2021 (SR21). The SR21 settlement confirms the Long Term Plan (LTP) funding settlement, provides additional resources for elective recovery and to reflect the impact of COVID-19, and extends the settlement period to 2024/25. The settlement is set out in table 1, below.
7. The total resources for the NHS in the 2021/22 financial year were significantly increased above the original LTP settlement, in order to manage the costs of dealing with the COVID-19 pandemic. The SR21 settlement has been established on the assumption that excess costs associated with the COVID-19 response can be significantly reduced. Therefore, the sustainability of the settlement is also linked to the ongoing level of healthcare demand from COVID-19.

Table 1: SR21 settlement

	2021/22 £m	2022/23 £m	2023/24 £m	2024/25 £m
LTP settlement	133,289	139,990	148,467	156,187*
Other adjustments**	3,375	3,380	3,383	3,387
LTP/SR19	136,664	143,370	151,850	159,574
Additional funding (COVID-19/SR21)	14,543	8,998	6,122	3,673
Total	151,207	152,368	157,972	163,248
Real terms growth on previous year (%)		-1.9%	1.4%	1.4%

*LTP settlement ends in 23/24. 24/25 value shown based on 3.0% real terms growth based on Sept 21 GDP deflators

**Includes central pensions funding, central depreciation and NHSI budgets

High level allocation of funding

8. Allocations to each commissioning stream are set out in table 2, below. These have been set taking into account expected price inflation, activity growth, new service priorities and elective recovery. The levels of efficiency/cost reduction required include both the core year-on-year LTP requirement and the additional requirement of the SR21 settlement to reduce direct and indirect COVID-19 costs towards an affordable level.

9. Key points to note are that:

- Core ICB programme funding allocations grow by 3.6% against an adjusted 21/22 baseline. This funds inflation and activity growth (net of the normal 1.1% efficiency requirement, and deficit reductions), but in addition further savings are required as we recover from the COVID-19 response and seek to reduce the direct costs associated with measures to manage, in particular, infection control.
- We have explicitly identified funding to support elective recovery (£2.3bn in 2022/23) to tackle the backlog of care. This is the first year's investment towards the goal of delivering the equivalent of around 30% more elective activity by 2024/25 than before the pandemic, taking account of reforms to join up generalist and specialist advice and avoid unnecessary outpatient referrals.
- We will maintain the Mental Health Investment Standard and the Long Term Plan investment in Service Development Funding for mental health to expand and transform mental health services, increasing mental health spend as a percentage of total NHS spend;
- Resources for other Long Term Plan priorities, including additional services above core provision in primary care, cancer and diagnostics are allocated from the Service Development Fund which reflect commitments to increase spending in these areas.
- For primary care (GP services), the contractual commitments of the GP contract and Primary Care Network entitlements are the main driver of the funding requirement.
- For specialised commissioning there is growth funding for inflation and activity. The increase in the allocation also reflects the fact that new drugs recommended by NICE are mainly provided through specialised services, and expenditure on such treatments is expected to grow faster (as it has historically) than other areas of commissioning.

Table 2: High level allocations

	2021/22 £m	2022/23 £m	2023/24 £m	2024/25 £m
Place Based Commissioning Budgets	135,134	137,820	140,585	143,647
System Budgets	106,778	107,841	108,666	110,222
o/w ICB Allocations	91,604	94,889	97,182	98,341
o/w General Practice	8,977	9,666	9,923	10,319
o/w ICB Admin	1,073	1,081	1,081	1,081
o/w COVID-19 Funding	5,124	2,205	480	480
Specialised Services	21,129	22,278	23,386	24,548
Elective Recovery	2,000	2,318	3,021	3,122
Other Primary Care	5,227	5,384	5,512	5,755
Other Direct Commissioning	1,971	2,156	2,274	2,380
Service Development Fund	3,812	4,869	6,692	7,134
NHSEI Central Programme & Admin	1,231	1,249	1,264	1,280
Other Funding incl. Central Pension Costs	4,761	6,274	7,157	8,808
Total	146,908	152,368	157,972	163,248

*The baseline is constructed on the basis of annualised H2 envelopes for systems and full-year allocations for other areas

ICB financial framework

10. During 2020/21 and 2021/22, we have begun to establish systems as the key units for financial allocations and planning, as part of the COVID-19 financial framework. In 2022/23, we will continue this and implement a financial framework entirely built around systems.
11. ICBs and NHS providers will, subject to the passage of legislation, be set the objective of working together locally to plan a balanced net financial position, which they must seek to achieve as a system. Systems will reinstate local agreements on funding flows, aligned to the costs of delivering service plans and affordability, to replace the nationally determined funding flows used through the COVID-19 financial regime.
12. The Aligned Payment and Incentive approach will be implemented in 2022/23 alongside updated national prices. This allows ICBs and providers to set fixed payments to reflect the costs of delivering commissioned services, with an expectation of variable payments on top to reflect and incentivise additional activity for elective recovery, as well as other local priorities.

ICB target allocations

13. The distribution of resources between systems will be based on the established approach of comparing existing budgets with a “fair share” target allocation calculated using statistical analysis. The allocation will also now include a system’s share of previous sustainability funding, which has historically been allocated separately at a provider level but has been included within system funding as part of the COVID-19 financial regime.
14. The following changes will be made to the model, taking account of recommendations from the Advisory Committee on Resource Allocation:
 - Refreshing the model for general and acute hospital services using a more accurate formula and more recent data.
 - Improving the health inequalities and unmet need adjustment by changing from premature mortality to an avoidable mortality measure.
 - Estimating baseline populations using GP registered populations for a single recent month, rather than the usual annual average, because of distortions to population movements linked to COVID-19.
 - Updating the adjustment for unavoidable costs due to remoteness with an improved model that uses patient-level costings and more recent data.
 - Introducing new adjustments to the target allocations to reflect an assessment of the unavoidable additional costs of some PFI contracts.
15. The actual 2022/23 funding allocations for ICBs will be set to move each system towards a fair share of the affordable NHS budget, set using the formula. A convergence adjustment will move systems closer to their fair share over time in a measured way. For 2022/23, the average convergence factor will be set at -0.7% with variation at system level between -0.94% and +0.25%.

16. Allocations are being set for one year only. We expect to set multi-year allocations for 2023/24 and 2024/25 during the first part of 2022, following technical work to adjust baselines as we exit the COVID-19 financial regime.

Next steps

17. The 2022/23 planning process is now underway, with draft system plans to be submitted in mid-March and final plans in place by the end of April.
18. ICB level allocations and detailed technical explanatory materials will be made available on the NHS England and Improvement website.