manx care Kiarail Vannin	SUMMARY REPORT	Meeting Date:	5th March 2024
		Enclosure Number:	

Meeting:	Manx Care Public Board Meeting		
Report Title:	BAF Deep Dive - Finance Risk		
Authors:	Jackie Lawless		
Accountable Director:	Jackie Lawless, Finance Director		
Other meetings presented to or previously agreed at:	Committee	Date Reviewed	Key Points/ Recommendation from that Committee

Summary of key points in report

This document provides an overview of the risks in relation to the Manx Care's Finances. These include those already articulated via the Board Assurance Framework, and those included in Datix. Finance is a key discussion topic at all levels of the organisation and through various governance mechanisms / forums such as:

- Weekly / Monthly Budget Holder Meetings
- Care Group Management Meetings
- Performance & Accountability Reviews
- Weekly Executive Meeting
- Risk Management Committee
- CIP Programme Board
- Business Case Review Group
- Finance, Performance & Commissioning Sub-Committee
- Manx Care Board Meetings
- Regular Executive to Executive Meetings with DHSC
- Mandate Assurance Meetings
- Manx Care / DHSC Board Meetings

Deep Dives on Finance Risks were carried out in the Risk Management Committee meetings in May and December 2023 with further deep dives planned for 2024.

Recommendation for the Committee to consider

Consider for Action		Approval		Assurance	✓	Information	✓

Board Assurance Framework

The Board Assurance Framework Risk 6 – Failure to Achieve Financial Sustainability (Appendix 1) identifies the following key risks:

- Significant cost and operational pressures risk overspend against budget. Inflationary pressures and the cost of Pay Awards are key drivers of this spend, as is the continued need for investment to stabilise services and bring them to safe operating standards. The total projected overspend in 23/24 is £30.4m.

- Pay awards remain under negotiation / arbitration. Current Treasury guidance assumes 6% pay awards in 23/24 against funding for 2%. The impact of this is £7m but could be higher if pay awards are more than 6%.

- Significant investment required to reduce waiting list backlogs. £18m has already been approved by Tynwald for Restoration and Recovery Phase 2 but further significant sums will be required to address backlogs more widely across the system. A Business case for Restoration and Recovery Phase 3 is in development.

- Transformation projects generating significant future funding pressures. Based on current projects in the pipeline this could be in excess of an additional £10m annual cost.

- Future funding not yet agreed - growth has been agreed but no funding for investment / service development. Current funding gap (23/24) compared to Sir Jonathan Michael's recommendations is £64.8m.

- Inherited widespread non-compliance with Financial Regulations with regard to contracting and procurement. Whilst compliance has improved there is still significant financial risk associated with the cost of regularising our contract arrangements, many of which have not had inflationary uplifts for many years.

These risks are reflected in Datix and regularly reviewed as part of our internal Risk Management process. Finance risks were the subject of a Deep Dive at both May and December's Risk Management Committee meetings. Below is a summary of each of the risks and the mitigations and controls in place against each one.

There are currently 12 Finance Risks in Datix, 9 of which are Board Level risks:

ID	Title	Risk level (current)
808	Failure to Achieve Financial Balance in Current Year	Extreme
809	Failure to fund Transformation	Extreme
810	Failure to Secure Sufficient Funding to deliver against Mandated Performance Targets	Moderate
811	Failure to Deliver CIP Target for 23/24	Low
812	Pay Awards Agreed in Excess of Budget	Extreme
813	Insufficient Funding to Respond adequately to CQC	High
814	Failure to Fund Internal Business Cases	High
889	Failure to secure sufficient funding to deliver safe, effective services	Extreme
890	Failure to Develop Adequate Financial Management Mechanisms	Extreme

808 Failure to Achieve Financial Balance in Current Year – Extreme

Manx Care has been forecasting a significant overspend against budget since the beginning of the financial year - £26m forecast in April management accounts. Manx Care's Financial Plan for 23/24 that was submitted to Treasury identified £66m of funding pressures, of which £43m were unavoidable and relate largely to inflationary pressures, prior year deficit and increased pay awards. The additional funding awarded for 23/24 was £20m, leaving a significant gap.

Since that time, costs have continued to rise with the predicted overspend now at £30.4m. In response to these issues, a range of mitigations were proposed and agreed with DHSC. These have so far generated £2.35m in savings. Detailed financial plans for all divisions were prepared and implemented, as well as enhanced controls and oversight on Bank & Agency spend. Enhanced reporting and scrutiny has also been put in place to ensure appropriate review of spend. CIP savings of £7.5m are expected in the current year and monthly run rates have continued to reduce since August '23.

However, all of these controls and mitigations were insufficient to address the significant gap between the unavoidable cost pressures and the funding uplift of £20m.

809 Failure to Fund Transformation – Extreme

The output of the Transformation work is highlighting significant investment needs which will require ongoing revenue funding. These costs are funded in the first instance by the Healthcare Transformation Fund but the ongoing costs must be borne by Manx Care. There is an expectation that Manx Care will be able to accommodate these increases costs through the growth funding and efficiencies. However, given the funding gap this is unlikely to be possible. The impact in 24/25 will be £1.8m, rising to £5m in 25/26.

Before any Transformation business cases are approved, Manx Care needs to confirm it will take on these ongoing costs. Until the wider funding issue can be addressed, Manx Care will not be able to do this which will impact on the ability to deliver against the 26 Recommendations of the Sir Jonathan Michael Report.

810 Failure to Secure Sufficient Funding to deliver against Mandated Performance Targets - Moderate

Mandated Performance Targets are entirely within the control of the DHSC and so should be fully aligned to the funding available. To date, these processes have been misaligned but this is less so as the Department has begun to adjust Mandated performance requirements to reflect funding pressures. Therefore, the likelihood and potential impact of this risk is much less than it was 12 months ago. However, the funding for 24/25 does not allow us to meet those requirements without potentially constraining core activity.

A detailed financial planning exercise is underway to determine the impact on operational performance of generating sufficient headroom to address the Mandate requirements, as well as other strategic funding priorities.

811 Failure to Deliver CIP Target for 23/24 - Low

The CIP is currently on track to deliver £7.5m in CIP savings this year which is in excess of its budgetary target of £4.5m.

812 – Pay Awards Agreed in Excess of Budget – Extreme

Pay Awards for 21/22 and 22/23 have now been resolved with all groups. The amounts agreed are additional to Manx Care's budget so are included in the Supplementary Vote. Treasury have agreed to fund backpay element of awards but Manx Care will need to fund these going forward, which puts pressure on 24/25 funding of approx £3m.

6% has been offered to MPTC/NJC and HMD staff groups for 23/24, in line with awards made to PSC. This is also the amount included in this year's forecast and Supplementary Vote. HMD have rejected the offer but no response has year been received from MPTC/NJC. This would cost a further £7m in 24/25 and limits the available funding for further pay awards in 24/25.

There is a desire amongst staff side colleagues to agree multi-year pay deals but there has been little appetite from treasury for this before now. We will continue to explore options in this regard as it may allow us to spread the impact of increases over a longer period of time.

There is currently insufficient funding available for pay awards in excess of these amounts so industrial action may occur as a result.

813 Insufficient Funding to Respond adequately to CQC – High

It's likely that further investment into services will be needed to bring them up to the CQC requirements. It's difficult to determine the potential cost of this until further development has been carried out but it is likely to be in excess of £2m.

This risk is incorporated into the wider risks around financial balance and securing sufficient funding. In addition, the CQC Action Plan is making good progress and the potential cost of responding may well be less than expected. Furthermore, there is substantial crossover between CQC response requirements and business as usual investment needs that are already known. There is the capacity to manage the financial impact of responding to the CQC. However, failure to respond adequately may have an impact on quality and safety.

As investment requirements are identified, they will be quantified and business cases prepared. Wherever possible, internal resources will be applied in the first instance by re-prioritising. Funding from DHSC Reserve, Transformation or other sources will be sought if appropriate. Risk assessments will be carried out where funding is not available in order to understand the quality/safety/operational impact.

814 Failure to Fund Internal Business Cases - High

It is unlikely that we will ever be able to fund all internal business cases. These requirements form part of our funding pressures analysis and so are factored into our funding requests. These requirements are prioritised so when funding allocations fall short of requirement, it’s possible to allocate funding appropriately. Where funding is not available, this will create an operational or clinical risk that would need to be addressed at an operational level.

890 Failure to Develop Adequate Financial Management Mechanisms - Extreme

Whilst the financial culture in Manx Care has improved significantly, unless robust controls are in place, setting appropriate budgets, controlling spend and predicting future spending needs will remain a weakness and affect Manx Care's ability to make the most effective use of its resources.

Manx Care relies heavily on other parts of Government to provide robust financial management and often has limited ability to drive the necessary changes. This is particularly evident with regard to reliance on OHR, Department of Infrastructure, DHSC, GTS and Treasury to provide key financial systems, adequate controls on payroll spend, and robust planning of Capital Spend, as well as clear accountability and visibility over spend and funding requirements around our IT and physical estate which creates financial risk. This has been confirmed in a recent Internal Audit report.

In response to this risk, enhanced spend reporting has been developed by the Finance Team to support enhanced scrutiny and control. An additional post has also been created to specifically focus on designing, implementing and managing more robust financial control systems. Furthermore, responsibility for estates, infrastructure, data, performance, IT, contracting and Shared Services have been brought under the single Executive portfolio – Director Of Finance, Performance & Delivery – to provide enhanced oversight of these critical areas that are the source of much of our financial risk outside of operational spends.

Plans are in train by Treasury to introduce a government wide financial accounting system which should bring enhanced control over spending and financial delegations. Further developments regarding stock management and asset management are also expected which will be beneficial. However, full implementation of these systems will not be completed until at least 18 months from now.

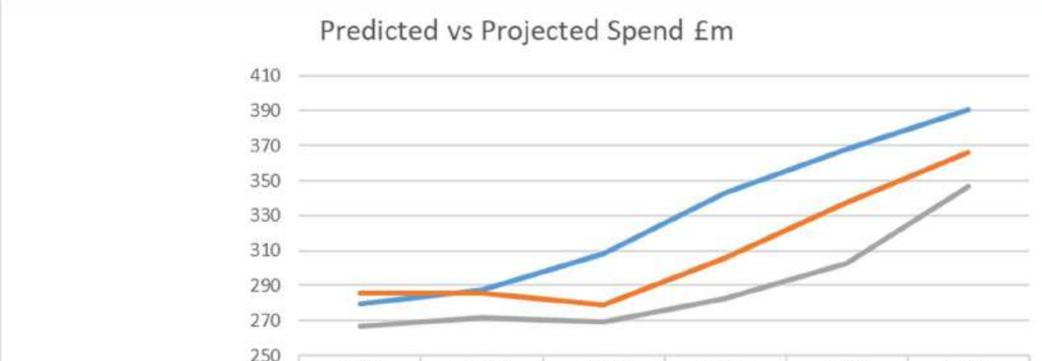
For the longer term, support is being provided to develop Activity Based Costing which will allow us to link activity to spend. However, this is likely to take a number of years and significant investment to achieve. In the meantime, recent expansion of the Performance team will help to establish some of the infrastructure and governance to enable this work.

889 Failure to Secure sufficient funding to deliver safe , effective services - Extreme

Achieving financial sustainability involves prioritising and controlling our expenditure to deliver best value for money. Since the establishment of Manx Care in April 2021, inflation has been 20%. However, spending has only risen by 19% which is a significant efficiency in itself. This efficiency has been achieved whilst still making strategic investments in stabilising services and delivering significant improvements across the organisation. Over the same period, Manx Care will deliver £20m in savings. All of this demonstrates the considerable efforts in driving value for money.

But, financial sustainability also requires Manx Care to clearly establish and secure the appropriate funding needed to deliver the services required.

Funding levels continue to be significantly below those recommended by the Sir Jonathan Michael report. In the current year, the funding gap is £64.8m. In 24/25, Manx Care's budget has increased from £303m to £347m which is a significant uplift. However, it does not fully address the funding gap, which will be £43.6m.



	19/20	20/21	21/22	22/23	23/24	24/25
SJM Predicted Spend	279.3	287.7	307.9	342.8	367.8	390.3
Actual / Projected Spend	285.7	285.7	279.1	305.8	337.8	366.3
Actual Budget	266.7	271.7	269.1	282.9	303.0	346.7

Actual funding has remained far below these recommendations (increasing just 13% since April 2021). Spend has also remained far below these recommendations, although above budget.

Furthermore, the Island Plan to increase the population by 15,000 will create further pressure and funding requirements that have not yet been calculated or provided for.

Given the current financial position of the Manx Government, there is a significant risk that funding will not reach the required levels to provide safe and effective care, deliver transformation, and accommodate the increased demand from the Island Plan ambitions

Funding levels are determined outside of Manx Care. However, we continue to drive this agenda forward with DHSC and wider government. This is the single biggest risk to the future sustainability of the Health and Social Care service.

Achieving financial sustainability involves prioritising and controlling our expenditure to deliver best value for money. But, it also requires Manx Care to clearly establish and secure the appropriate funding needed to deliver the services required.

Mitigations and controls have been identified to address all of the risks outlined above to address both funding and spend but there are still gaps in our data, knowledge and understanding of many of these that hamper our ability to apply robust financial controls. Our understanding of the risks and issues has grown immensely since our establishment in April 2021. However, as our governance and data matures this too should continue to mature.

Considering the gaps identified, and the reliance on others to address many of those gaps, Manx Care has made significant strides forward since its establishment to put in place improved systems and processes as well as an improved financial culture that drive better oversight and control over spend.

The funding gap continues to be the single biggest risk to our financial performance but also to our ability to deliver safe and effective services. It also significantly impacts on our ability to drive the improvement and deliver against the Transformation objectives that we all aspire to in pursuit of our aim to be the "Best Small Island Health and Social Care Provider"

6 Failure to achieve financial sustainability.

Overall risk owner:	Jackie Lawless	Amendment date:	Feb-24
		Committee scrutiny:	FPC Comm

Which of the 2023-24 objectives may be impacted:

1 Covid-19 response.	x	7 Reducing waiting times.	x
2 Service user feedback drives improvement.		8 Continuous improvement.	x
3 Transforming health & social care delivery.	x	9 Workforce engagement an	x
4 Corporate, clinical and social care governance.	x	10 Primary Care at scale.	x
5 Transform urgent and emergency care.	x	11 Early interventions.	x
6 Financial balance.	x	12 Environmental sustainabilit	x

		Committee scrutiny:	FPC Comm	Committee scrutiny:	FPC Comm
TARGET: L X I	9	Mar '22: L x I	12	Jan '24	12
May '22: L x I	Residual Score	June '23: L x I	12	Feb '24	
June '22: L x I	25	July '23: L x I	12	March '24	
Aug '22: L x I	25	Sep-23	12	April '24	
Oct '22: L x I	12	Oct-23	12	May '24	
Dec '22: L x I	12	Nov-23	12	June '24	
Feb '23: L x I	12	Dec-23	12	July'24	

Related operational risks:	Main Controls 1-6	Lead	Assurance re: effective control	Gaps in control	Gaps in assurance	Assurance RAG
#1 Significant cost and operational pressures risk overspend against budget - particularly Agency spend to cover high vacancy rate and Tertiary spend #2 Pay awards remain under negotiation / arbitration. #3 Significant investment required to reduce waiting list backlogs #4 Transformation projects generating significant future funding pressures #5 Future funding not yet agreed - growth has been agreed but no funding for investment / service development #6 Inherited widespread non-compliance with Financial Regulations with regard to contracting and procurement	1. Tools to estabish financially sustainable staffing are poorly designed and available data is of low quality or is not available to managers, planners and leaders to support effective decision making.	Anne Corkill & Jackie Lawless	Work is scoped and planned to improve the provision of management information to budget holders and recruiting managers which adequately connects budgets to HR system PIP numbers; to identified workers, including those who are on limited term appointments; permanent contracts, flexible working contracts and agency staff. Resources are being committed from the CIP programme to progress control design improvements. One additional FTE has been recruited in the Finance reporting / analysis function to focus. Financial scrutiny occurs at quarterly Performance and Accountability Reviews of the Care Groups. Improvements to activity are included within the scope	High vacancy rates do not always produce underspends - they produce overspends as temporary / flexible workers are retained at premium rates (20%-70% premiums) which reflect the fluid markets in which the workers are contracted. These circumstances support a forecast overspend on staffing of circa £4.9M in 23-24 compared to the budgeted establishment for these overspent departments / services. There are likley to be instances where managers have recruited above their budgeted establishment which is not always clearly visible There are opportunities to improve forecasting techniques and reporting	Connecting budget holders with budgets, aligned to accurate HR system PIP numbers; to those who are on limited term appointments; permanent contracts, flexible working contracts and agency staff is at an immature level of sophistication.	R
	2. Improvements in the control systems which link health and care activity delivery with cost of doing so are being made.	Jackie Lawless	The Restoration & Recovery workstream at Manx Care has shown that effective tools can be developed to provide insight into performance and planning. Investment has been made in performance management function which will enable the development of better performance data Transformation are preparing a plan to develop an	In most service areas, there is little or no data linking activity delivered with the cost of doing so - making it impossible to assess value for money or inform 'make or buy' decision making.	The Transformation team have undertaken a review of surgical services to more accurately assess activity and cost. The review has outlined the process for implementing Activity Based Costing which will likley take a number of years and require significant investment to achieve	R
	3. Improvements to control design re contracting and procurement	Jackie Lawless	Manx Care has invested in some additional resource in house in the Contracting & Commissioning team to provide additional expertise and resource to address the inherited non-compliance position. This work is reviewed by the FP&C Committee and has progressed well. A Contract Management Framework is being developed and expected to be implemented in early 2024 Responsibility for Primary Care and Tertiary contract management has now been passed to the central Contracts Management team who have the relevant contract management expertise	Contracting and procurement decision making can be inflexible and lacking in agility - this can result in lost opportunities to take advantage of advantageous pricing; shortened delivery times; or unexpetedly availability of preferred supplier resource.	Treasury leads on tendering but has predicted that should a high volume of tender activity be likely, they may not be resourced sufficiently to meet the demand. Operational areas may also not be sufficiently resourced to carry out the full service / contract reviews necessary	A
	4. Improvements to the design of the scheme of delegation	Jackie Lawless	A process of review of financial delegation is planned in 22-23 Dir of Finance sits on a Government wide management group scoping the provision of an electronic 'purchase to pay' system for all of Government Regular and granular scrutiny of spend by each budget holder to ensure appropriate purchasing decisions and	Across Manx Care, purchasing is currently undertaken with the use of paper pads in quadruplicate - building in a lack of financial grip without the use of an electronic system. This system potentially provides any colleague with the ostensible authority to make purchases from a supplier whilst in possession of a purchase requisition pad without the necessary authority	The scheme of financial delegation has design weaknesses which do not accurately align delegated powers with appropriate officers. It is not possible for the Finance Shared Service team to ensure full compliance with Delegations before making payments due to the process being paper based.	A
	5. Closing the gap between Transformation and Manx Care	Jackie Lawless	Transformation Oversight Group with representatives from Manx Care and the Transformation team has been formed to monitor and drive progress of the Transformation programme.	There are delays in completing and implementing transformation projects - with delayed benefits realisation and can result in cost pressures as near obsolete or obsolete systems maintained at high cost. New initiatives are also generating ongoing cost pressures for Manx Care, funding for which has not been agreed by Treasury. Transformation may seek commitment from Manx Care to pump prime or fund an initiative or activity for a greater period than the financial settlement that DHSC has provided Manx Care with. Without longer term financial planning, Manx Care cannot adequately plan to grow services	Understanding Manx Care's baseline cost for delivering planned service levels remains uncertain - undermining any discussion about establishment funding. Without longer term financial planning, Manx Care cannot adequately plan to grow services or plan other investment decisions.	R
	6. Adressing future funding requirements	Jackie Lawless	The principle of growth funding has been agreed with Treasury and is included in the projected increase in budget over the next 3 years. Transformation New Funding Arrangements project investigating options for government to fund health and social care in future e.g. taxation changes. Transformation have also produced a paper detailing potential mechanisms for agreeing the funding allocation to Manx Care proposing a blended approach to cover 'baseline' and additional 'activity components'.	Whilst future funding has been indicated in the Pink Book it is not guaranteed and does not allow for significant service investment, rather underlying growth. The view of Treasury has been that this funding should cover all future requriements of the system and this position needs to be tested The budget setting and mandate setting cycles are misaligned with budgets for future years being set before mandate has been agreed	Understanding Manx Care's baseline cost for delivering planned service levels remains uncertain - undermining any discussion about establishment funding. Without longer term financial planning, Manx Care cannot adequately plan to grow services or plan other investment decisions. The implementation of the recommendations of Transformation are likley to take some time - a number of years - to generate efficiencies to cover required investment	R

Related operational risks:	Main Controls 1-6	Lead	Assurance re: effective control	Gaps in control	Gaps in assurance	Assurance RAG
	7. Improving internal financial governance mechanisms	Jackie Lawless	Regular meetings between Finance Business Partners and Budget Holders to review financials and address any anomalies / overspends and to improve financial forecasting Suite of spend reports produced monthly for Care Groups to show salary, agency and supplier spend, as well as open Purchase Orders Training provided to budget holders regarding their responsibilities and access to reporting has been trialled and will be rolled out across Manx Care Investment has been made in additional resource in Finance Team to aid with financial reporting and analy Regular Financial Assurance Group meetings between Manx Care & DHSC to address finances / financial planning. Monthly Management Accounts produced that show current and predicted performance and highlighting areas of risk / pressure Monthly FP&C Committee meeting to review and address financial, performance and commissioning issues. Monthly CIP Programme Board meeting to oversee delivery against target of the CIP programme and address any blockages / significant risks Business Case Review Group established to provide effective review and challenge of business cases before approving for funding Monthly Performance and Accountability Reviews with Care Groups that include scrutiny of financial performance / pressures	CIP programme requires additional operational resource to drive performance - this is currently provided by external resource but work is underway to recruit a CIP Programme Manager . Further improvements to financial reporting can be made to provide more meaningful and timely information to a range of stakeholders Improved formal review and scrutiny planned of spend in operational areas that sit outside of Care Groups e.g. Tertiary, Corporate, Operations	Service level reviews continue to highlight deficiencies in service provision which often require additional investment, which is unforseen. The outcome of CQC inspections is likely to generate signficant funding pressures not already identified Further education and deepening relationships with finance are required to ensure adequate visibility of risks Recent Internal Audit Review has classified Fianncial Governance Mechanisms as 'Inadequate'. Many of the recommendations have already been addressed but an action plan is being developed to address the remainder. Some of these relate to the performance of Shared Services and DHSC which are largely outside Manx Care's control	A