Subject:

HSC Breakeven and Financial Recovery

Circular Reference:
HSC(F) xx/2023

Date of Issue: XX xxxxx 2023

For Action by:

- **Directors of Finance of all HSC bodies and Northern Ireland Fire and Rescue Service**

For Information to:

- **Chief Executives of all HSC bodies and NIFRS**

Summary of Contents:
This circular defines the statutory break-even duty for all HSC bodies and NIFRS plus it describes the process of financial recovery and contingency planning. It also takes the opportunity to consolidate and delete a number of previous relevant circulars.

Enquiries:

Any enquiries about the contents of this circular should be addressed to:

Mr David Keenan
Head of Financial Planning
Department of Health
Castle Buildings
Upper Newtownards Road,
BELFAST
BT4 3SQ

Tel: 028 9037 8723

Email: FinancialPlanningUnit@health-ni.gov.uk

Related documents:

HSS(F)17/2009

Superseded Documents:

HSS(F) 34/97
HSS(F) 25/2000
HSS(F) 29/2000
HSS(F) 34/2001
HSS(F) 35/2001
HSS(F) 37/2001
HSC(F) 21/2012

Expiry Date:
Not Applicable

Status of Contents:
For Action

Implementation:
Immediate

Break Even Duty and Financial Recovery

Dear Colleague

It has been a number of years since circulars on Break Even and Financial Recovery have been reviewed, therefore the purpose of this circular is to:

- Clarify the break-even requirement to be applied to all HSC bodies and NIFRS.
- Describe the process of financial contingency and recovery planning; and
- Unify and delete a range of existing circulars.

Financial Performance and Break-even

Existing legislation requiring all HSC bodies and NIFRS to break even remains in force. Section 15(1) of the Health and Personal Social Services (NI) Order 1991 states that: "Every HSS trust will ensure that its revenue is not less than sufficient, taking one financial year with another, to meet out-goings properly chargeable to revenue account".

While under s1(5) of the Health and Social Care (Reform) Act (Northern Ireland) 2009, the Department of Health has the power to give directions to each HSC body and all other ALBs to break even. Therefore, all HSC bodies and NIFRS continue to have a duty to contain expenditure within available resources.

The following will apply in terms of all bodies achieving break-even:

1. HSC bodies and NIFRS will have an agreed Revenue Resource Limit (RRL) for the year, the opening allocation will be set by the Department with further RRLs issuing in year. The RRL will also take account of RRLs issued for services provided to or supplied by HSC bodies such as Trusts, Public Health Agency and Business Services Organisation.

2. Each body is directed to achieve financial balance, with the statutory duty to break-even defined as containing expenditure within their total annual RRL. All HSC bodies and NIFRS must annually plan service delivery in a way that meets their statutory responsibilities and ensures that expenditure is contained within the following budgetary limits: **a tolerance level of 0.25% of an underspend of the final agreed RRL or £20,000 of an underspend, whichever is the greater.**

3. In order to manage the Department's overall budget, we require all HSC bodies and NIFRS to exercise strong financial management principles and control to contain expenditure within their approved RRL (i.e. zero overspend) and take all necessary steps to ensure that financial deficits do not arise.

4. All HSC bodies and NIFRS should take all reasonable steps to ensure that any under spend against RRL is kept to the minimum practicable level. This ensures that the maximum possible available resources are applied efficiently and effectively to the provision of health and social care and/or public safety.

5. All potential deficits/ surpluses must be notified to the Department (SPPG for Trusts and Other Bodies to the Financial Management Unit of DOH) by the timeframes specified within annual reporting cycles, or where the position of the body has changed significantly between reports.

6. While forecasts may reflect a deficit/ surplus in Monthly Monitoring Returns, it is expected that actions will be taken by the body to achieve break-even throughout the course of the financial year. If a deficit/ surplus is anticipated which cannot be managed this needs to be notified separately from the Monitoring Return to the Department (SPPG for Trusts and Other Bodies to the Financial Management Unit of DoH), together with details of any contingency arrangements required to address them.

7. The cash requirement of the Department and its ALBs is an important measure of the Department's financial management as any excess cash drawn against the Estimate figure provided will result in an Excess Vote.

8. All HSC bodies and NIFRS must manage the cash targets set by the Department to ensure that annual limits are not breached.

9. All HSC bodies and NIFRS will also be required to manage any other annually agreed targets set by the Department to ensure these are managed within set limits. This will include any limits set for:

    - Annually Managed Expenditure (AME).
    - Provisions (movement (AME) and utilisation (DEL)).
    - Depreciation/Amortisation/Impairments (split between DEL and AME).

    The Department (Financial Management Unit DoH) should be notified immediately of any risk of limits being breached.

10. DEL funding for provisions and depreciation/amortisation/impairments is limited in the same way as other DEL funding. If it is not possible to contain spending within the limits set reductions may be required in other funding to ensure that the overall Departmental position can be balanced.

Financial Contingency / Recovery

Where the performance of any HSC body/ NIFRS diverges from agreed plans in-year to the extent that failure to break-even is forecast, financial contingency and/or recovery arrangements will apply. Further detail on the operation of these arrangements is contained in the appendix to this circular.

Financial Management and Monitoring

HSC Bodies and NIFRS

HSC bodies and NIFRS are required to develop balanced financial plans to include deliverable savings measures to a quantum which will support financial break even.

HSC Trusts – Further Detail

Trusts will submit detailed financial plans within their Trust Service Delivery Plans (or equivalents). The planning and approval process for commissioners and providers' plans will be advised annually. Financial plans and Revenue Resource Limits (RRL) will be agreed between commissioners and providers before the beginning of the financial year, if the Budget process allow, or as soon as possible thereafter. Forecast funding shown in providers' plans will be reconciled with that shown in commissioners' plans,

and any discrepancies queried and resolved. Trust expenditure will therefore be directly related to service priorities and reconcilable to the overall HSC budget for the year in question.

As a minimum, each body's finances will be subject to monthly monitoring of:

a. Cash Requirement/Forecasts
b. Grant-in aid draw-down
c. Monthly Outturn & Forecast Outturn by resource headings, in line with Monitoring Return Guidance issued, to include:
    - Year-to-date and forecast expenditure on a current year basis i.e. including non-recurrent sources of income/funding and expenditure.
    - Underlying recurrent annual funding and expenditure, to provide early warning of any potential deficits.
    - Movement in provisions and other non-cash expenditure items; and
    - Any other data required for the Outturn/Forecast Outturn return to DoF.

The above information will be in a format required by the Department.

In addition, the following information is also required as part of the wider government reporting and budget management process.

a. All financial information to inform in-year monitoring rounds, budget exercises and AME returns commissioned by DoF and in accordance with departmental timetables and requirements
b. Provisional and Final Outturn returns in a format required by the Department and within required timescales

Existing HSS(F)/HSC(F) Circulars: financial performance, contingency and recovery planning

Upon implementation of this circular, the following circulars cease to apply and are therefore deleted:

HSS(F) 34/97: Break-even duty

HSS(F) 25/2000: Break-even duty, provisions and accumulated deficits

HSS(F) 29/2000: Promoting financial stability within HPSS organisations

HSS(F) 34/2001: Contingency planning to achieve financial balance

HSS(F) 35/2001: Recovery plan monitoring

HSS(F) 37/2001: Impact of Resource Accounting and Budgeting on break-even duty

HSC(F) 21/2012: Financial Monitoring: Break Even

FINANCIAL CONTINGENCY AND RECOVERY PLANNING

The purpose of this guidance is to advise HSC bodies and NIFRS of the essential elements of financial contingency or recovery plans.

Introduction

All HSC bodies and NIFRS have an obligation to contain expenditure within the resources available. This appendix provides guidance on the measures to be taken where deficits have arisen or where they are projected to arise.

Differences between a contingency plan and a recovery plan

Contingency plans are intended to be an interim measure to ensure that a break-even position is achieved in year. Since a contingency plan is being implemented in the course of a financial year, when speedy implementation is paramount, the majority of measures in it will usually be non-recurring.

A **recovery plan** should be instigated where there is a more serious underlying financial problem which cannot be addressed in-year, or where a material deficit from previous years must be recovered. It should aim put the trust on a sound financial footing on a recurring basis over the shortest possible period, normally within a period of 2 to 4 years.

The distinction is therefore one of timescale, thus a contingency plan would be expected mainly to contain measures of a non-recurring nature, whereas a recovery plan would be expected to describe the organisation's plans to implement longer-term measures, possibly requiring lengthy consultation, for example the transfer of services to a different location or changes in methods of service delivery.

In practice, however, a contingency plan may form year one of a recovery plan, with any recurring measures being carried forward into the recovery plan.

Approval of plans

The process for formally agreeing contingency/recovery plans with HSC bodies and NIFRS, will be at the discretion of the Department, and will depend to an extent on the nature of the measures proposed. Obviously, a streamlined process will have to be used where a contingency plan is being implemented late in the year.

In considering any plan, the Department will expect that the measures proposed can be implemented without adverse implications for the level and quality of services provided. Service reductions should only be countenanced if it is clear that there are no other alternative measures for delivering the savings required. In such cases, the plan should include a brief description of arrangements to deal with any potential adverse media or stakeholder reaction to the measures proposed and implemented in line with extant guidance on the Change or Withdrawal of Services.. Proposals which jeopardise key Executive and Ministerial targets or commitments will not be approved.

Bodies will need to review the operation of their recovery plans on a regular basis, in the light of changes in financial circumstances and action taken to either maintain or restore financial balance. Where appropriate, the implementation of a body's plan may also need to be reviewed by the Department.

Stakeholder involvement

Key stakeholders should be involved from the outset in the production of any recovery/contingency plan. The agreement of these key stakeholders should be gained to the content, detail and deliverability of the plan, including any associated service and/or financial consequences. Key stakeholders will include DoH and commissioning leads within SPPG or other providers where relevant. The organisation's board, who will need to be critically involved in the preparation and delivery of the plan. Through this process the contingency/recovery plan can be considered in the context of the local HSC economy rather than purely from a single individual organisation's perspective; and the end product should be agreed by all stakeholders.

Where an acceptable contingency or recovery plan cannot be agreed, the Department will consider what other steps should be taken.

It is also possible that local Auditors will wish to scrutinise agreed recovery plans.

Essential elements of a contingency or recovery plan

The Department recognises that time constraints mean that the level of detail in contingency plans will not be as great as that in recovery plans. The following is therefore mainly intended for use when compiling a recovery plan. For example, a recovery plan will need to be supported by a net expenditure statement for each year of the plan. The format of the plan should be discussed and agreed with the relevant part of the Department (SPPG for Trusts and sponsor teams/DoH Finance for other ALBs).

1. An outline of the background/cause of the financial problems so as to provide confidence that the remedies proposed are appropriate and will be effective in restoring financial balance. The nature/cause of the financial problem may include:
    - Financial control issues.
    - Configuration issues (service and/or organisational);
    - Activity and cost pressures.
    - General management issues; and
    - The financial positions of commissioners/providers.

2. The extent of the financial problem:
    - A clear quantification of the size of the problem.
    - The identification of any assumptions in arriving at the above.
    - An analysis of the problem over the various elements giving rise to the nature/cause of the problem (as 1 above).
    - An assessment of the underlying financial position (i.e., does the problem relate to the current or prior years? Is it recurring or non-recurring?); and
    - An assessment of the current and future trend of the problem (i.e., has the problem stabilised or is it growing/reducing?).

3. A description of any measures/action taken to address the problem. This should include an assessment of the effect of any action taken, for example:
    - Savings plans, including the effect upon service levels, services generally, organisational changes, human resources etc; and
    - The securing of additional funds.

4. A description of the measures planned and agreed (with key milestones) to address the problem in order to restore the body to a balanced financial position on a recurring basis and, where appropriate, to effect the recovery of prior year deficits, including:
    - Detailed savings plans, including the completion of the pro forma savings plan schedule below.
    - An analysis of the costs and performance of the body, as benchmarked against other similar bodies.
    - Detail on realistic proposals to secure additional funds.
    - Service impact including service levels, waiting lists/times, reconfigurations.
    - Organisational impact, including human resources, reconfigurations.
    - All of the above must be quantified and profiled by year (and preferably quarterly within year); and

5. An assessment of the risks associated with the delivery of the recovery plan, including:
    - An assessment of the risks for each element of the recovery plan, including sensitivity and materiality; and
    - Details of the contingency measures in place should any of the risks materialise.

6. An assessment of the cash impact of the financial problem, including:
    - How any in-year cash deficit will be managed in the short term.
    - The restoration of cash and a “healthy” balance sheet in the medium term.
    - The impact on working capital, restrictions on capital expenditure, sale of fixed assets etc; and;
    - All of the above must be quantified and profiled by year.

7. Financial returns must be provided in support of the recovery plan and must:
   - Cover at least the period of recovery.
   - Demonstrate that the body will return to underlying financial balance by the end of the recovery period; and
   - Show that the body will return to a healthy cash position/balance sheet position by the end of the recovery period (or earlier).

8. A description of the control environment by which progress against the recovery will be monitored, including:
   - Written evidence of support from key stakeholders and DoH approval.
   - Clear milestones against which the implementation of the recovery plan will be measured and where intervention may be necessary.
   - Details of performance management meetings (such as steering groups) involving commissioners and providers, as relevant; and
   - The nature and frequency of Board level monitoring within the body.

MONITORING OF RECOVERY PLANS

The Department (SPPG for Trusts and the Financial Management Unit of DoH for other Bodies) will monitor the implementation of recovery plans on a quarterly basis, which will be consolidated for the Department. To facilitate this each HSC body/NIFRS with an agreed recovery plan should complete the following in an agreed format:

(a) A return showing progress in implementing the plan. Where there are a large number of small individual schemes, these may be grouped together under a 'miscellaneous' heading.

(b) A further return setting out all other actions agreed as part of the recovery plan e.g., reviews, benchmarking, etc - including the target date for completion and progress in implementing these.

(c) A narrative report on the progress in implementing the recovery plan and the financial consequences of this for the HSC body/NIFRS. Any variances/problem

areas which have emerged, and any actions proposed to bring the recovery plan back into line should be fully explained.

(d) Chief Executives should ensure that the above report is subject to Board scrutiny on a regular basis.