WEST HERTFORDSHIRE HOSPITALS NHS TRUST
FINANCIAL RECOVERY PLAN

1. INTRODUCTION

1.1 The objectives agreed in July 2006 in relation to the financial recovery plan were:

By the end of August to agree

• a financial plan for 2006/7 with monthly run rate targets
• improved accountability arrangements
• improved governance arrangements

By the end of September to agree

• a financial recovery plan
• organisational improvement plan

1.2 This report focuses on the work to be completed by the end of August.

2. EAST OF ENGLAND FINANCIAL POSITION IN 2006/07

2.1 The East of England NHS had a deficit in 2005/06 of over £200 million largely arising from debts in Bedfordshire and Hertfordshire and Norfolk, Suffolk and Cambridgeshire.

2.2 Despite significant growth in resources the East of England financial plans for 2006/07 submitted to the Department of Health in July 2006 showed a forecast deficit of £173 million. There has been a directive to reduce this by at least £60 million.

2.3 The East of England has instructed all Health Systems (i.e. the old Strategic Health Authority areas) to demonstrate how they could deliver this improvement. A target improvement of 1% of resources has been set for each Health System on the basis that all Organisations are assumed to have an equally difficult plan at this stage.

2.4 For Bedfordshire and Hertfordshire the target is therefore to improve the forecast deficit of £80 million by at least £20 million. The Health System is considering how this target can be met with a further meeting of Chief Executives and Directors of Finance on 10th August, 2006.

2.5 The forecast deficit of £173 million included an £18 million deficit for WHHT following discussion with the Trust Director of Finance.
3. FINANCIAL POSITION OF THE TRUST AND REQUIREMENT FOR SAVINGS IN 2006/07

3.1 Bedfordshire and Hertfordshire Strategic Health Authority agreed a “control total” of £12 million for the Trust in 2006/07. This means that the Trust can have a deficit of no more than £12 million at year end. This control total was set in agreement with the Trust to ensure a significant improvement to the 2005/06 financial position whilst recognising that it would be most unlikely that the Trust could deliver a breakeven result.

3.2 Under current NHS accounting arrangements if a Trust has a deficit in one year the following year they have their income reduced by the same amount on a one off basis. The amount is based on that reported by the Trust in the month 12 financial report to the Department of Health. The adjustment in 2006/07 for WHHT in relation to the 2005/06 deficit (£28.6 million) will be funded by Bedfordshire and Hertfordshire PCTs on a non recurrent and non repayable basis. This means that the Trust does not have to fund this amount which is in recognition of the significant and complex task that the Trust has in returning to a balanced income and expenditure position. The Trust must manage the 2006/07 deficit to the lowest possible level to minimise this penalty impact in 2007/08.

3.3 The Trust Board agreed a 2006/07 financial plan on 29th June, 2006 with:

- Planned income of £223.9 million in 2006/07 based upon 2005/06 forecast outturn income at month 10 adjusted for known changes such as 2006/07 Commissioning plans.
- Forecast expenditure of £251.2 million (before savings)
- Savings of £15.3 million to deliver the control total

3.4 As part of this overall financial plan overall Divisional budgets were identified based on a number of assumptions. The £15.3 million of savings was allocated across the Divisions using the indicative Turnaround plan at 31st March, 2006. The detailed Divisional budgets e.g. at cost centre level were not available when the overall financial plan was agreed and since then the Finance Team has been working with Divisions to establish this level of detail. The Trust Board now needs to finalise these budgets.

4. OVERALL APPROACH TO FINANCIAL RECOVERY

4.1 There are three key tasks in 2006/07 from a financial perspective to ensure delivery of the control total of a maximum £12 million deficit:

1. Deliver savings of at least £15.3 million by targeting 120% of this value
2. Develop the Organisation to improve performance
3. Manage activity and income to the levels agreed in SLAs

4.2 These areas are considered in sections 5 to 7.

5. DELIVERY OF SAVINGS

5.1 The Trust has established a Turnaround programme supported by two Turnaround Directors Martin Matthews and Ian Broomfield and programme management support. In accordance with practice elsewhere in the NHS the Turnaround programme seeks to identify savings and classify them as green, amber or red according to risk of delivery. Regular meetings are held to hold managers in the Trust to account for delivery of savings. In addition the Trust Chairman holds a monthly meeting to review progress.

5.2 At the end of July:

- £3.4 million of the savings target is categorised as red
- £6.5 million of the savings target is categorised as amber
- £5.4 million of the savings target is categorised as green

5.3 The savings target of £15.3 million is being allocated across the Divisional budgets. The indicative Turnaround programme at 31st March 2006 has been used to allocate £8.6 million of savings, the remaining £6.6 million is being allocated pro-rata to actual 2005/06 spend.

Table 1 – Savings allocated to Divisional budgets

<table>
<thead>
<tr>
<th>Division</th>
<th>Savings allocated using Turnaround Plan £’000</th>
<th>SavingsPro-rata £’000</th>
<th>Total Savings £’000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Medicine</td>
<td>2,847</td>
<td>1,757</td>
<td>4,604</td>
</tr>
<tr>
<td>Surgery</td>
<td>3,739</td>
<td>2,054</td>
<td>5,793</td>
</tr>
<tr>
<td>Womens</td>
<td>489</td>
<td>541</td>
<td>1,030</td>
</tr>
<tr>
<td>Clinical Support</td>
<td>527</td>
<td>977</td>
<td>1,504</td>
</tr>
<tr>
<td>Facilities</td>
<td>65</td>
<td>434</td>
<td>499</td>
</tr>
<tr>
<td>Estates</td>
<td>152</td>
<td>335</td>
<td>487</td>
</tr>
<tr>
<td>Corporate</td>
<td>755</td>
<td>628</td>
<td>1,383</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>8,574</strong></td>
<td><strong>6,726</strong></td>
<td><strong>15,300</strong></td>
</tr>
</tbody>
</table>
5.4 To ensure delivery of the challenging savings target in 2006/07 the Trust needs to focus on the areas of biggest benefit. These are:

· containing expenditure and tight management of budgets. Divisional targets will be set for reductions in temporary staffing costs and overtime. This will need to be delivered by

  o service redesign, including delivery of Best Practice, Best Value review
  o improvements in clinical productivity and reductions in PAs/middle grade staff to reflect improvements, through extensive clinical engagement (c.f. 6.1 below)
  o reduction in sickness levels
  o management of rotas (using electronic rostering if supported) to ensure that annual leave is planned and co-ordinated to avoid use of temporary staff as cover
  o stopping use of Agency staff from September 18th.

Redundancies may be required but will only be considered when all the above has been considered. London weighting allowances will be reviewed for new starters.

As part of cost containment Divisions must ensure that processes are in place to avoid:

  o changes in clinical practice that incur additional costs
  o use of unfunded NICE treatments and therapies
  o unfunded clinical trials
  o increases in staffing
  o payment of overtime
  o use of agency and bank staff
  o other increases in cost

· reductions in costs to reflect the SLA to release all direct costs and the all indirect costs (in corporate areas) with estate rationalisation being the only area of possible exception

· limiting all non-pay spend only to essential clinical items, procured at best value for money, and reducing stock levels to lowest safe levels

· spend to save initiatives e.g. reducing infections; Divisional Pharmacists

6. IMPROVING PERFORMANCE

6.1 Clinicians, and Consultants in particular, are the major influencers of spend. Engagement of this key group of staff is critical to financial recovery and to ensure this support the following initiatives are being established:

· Identification of Clinical Champions to lead clinical change programmes
· Establishment of trading accounts and full income and expenditure reporting
· Consultant job plans will include performance indicators and align programmed activities to commissioned activity levels
· Clinical coding to be incorporated within divisional teams
· Greater involvement in service costing and income recovery

6.2 Delivery of budgets including savings will be a Divisional responsibility. Budgets will be devolved to the lowest meaningful level and budget managers will be expected to deliver agreed financial targets.

6.3 New standing financial instructions and standing orders are being developed by the Trust Secretary for approval by the Trust Board on 31st August. Revised authorisation limits are being introduced as part of this to ensure maximum control of expenditure.

6.4 New performance management arrangements are being established within the Trust from September 2006 with earned autonomy a key feature of the overall framework.

6.5 The finance function within the Trust is being strengthened with additional experienced qualified accountants and additional support to Divisions. As part of this the framework for financial management will be strengthened so that managers act within clearly defined policies and procedures for making optimum use of available resources. A key element of the role would be to provide ‘financial challenge’ to divisional and corporate plans.

6.6 The creation of an ‘Income Section’ within finance will be an important step for the Trust in ensuring that the organisation survives under Payment by Results. The income function will deal with all income, e.g. PbR, Overseas Visitors, Private Patients, external recharges and other income generation.

6.7 Management development programmes for all disciplines are being established across the Trust led by the Leadership Academy.

7. MANAGEMENT OF ACTIVITY AND INCOME TO LEVELS AGREED IN SLAS

7.1 The Trust is required to work to agreed levels of commissioned activity, whilst achieving access targets. This will involve reducing capacity and cost in line with changes in commissioning. In emergency care the Trust will need to have contingency arrangements should reductions not be delivered. Measures are in place to manage new OP referrals where these are likely to exceed commissioned levels.

7.2 Outpatients
7.2.1 New OP activity has now been profiled across the year, reflecting both seasonal variation and the impact of service changes planned by PCTs. All new referrals are screened through the referral management centre based at HHGH. When the overall level of referrals received during a month is approaching the monthly quota level of activity for that specialty / PCT, the PCT will be asked if they wish to commission additional activity as necessary. If they do not (or if the trust is unable to provide additional activity) subsequent referrals received during the month will be passed to the PCT for any further action. Whilst there is a built-in time lag on the effect of such constraints on inpatient work, new OP rates can be expected to fall quickly.

7.2.2 Outpatient clinics are being removed on Fridays on all sites and being reprogrammed to other days to ensure reduction in attendances in accordance with Commissioner plans. The only exceptions would be where there are self-contained, peripheral clinics and the benefit of the full closure is not impacted.

7.3 Elective Inpatients and Day Cases

7.3.1 The PCTs have included funding for ensuring that the access targets are achieved throughout 2006 / 07, with progress towards the 18 week target being made. PCTs have removed activity for the low priority treatment procedures and, in the case of Watford Three Rivers and Dacorum PCTs, Oral Surgery procedures are now being commissioned from a local dentist.

7.3.2 The Trust needs to follow the PCTs procedure for authorisation of low priority treatments. No income will be received if this policy is breached.

7.4 Emergency inpatients

7.4.1 The Hertfordshire PCTs have commissioned a 5% reduction in the levels of emergency admissions seen in 2005 / 06. The Trust needs to ensure that its emergency bed capacity matches that commissioned by the PCTs. Under the operational guidance the Trust will receive payment if this reduction is not achieved. To ensure delivery of the 98% performance standard, there will need to be the ability to flex capacity to respond to demand.

8. AGREEMENT OF DIVISIONAL BUDGETS FOR 2006/07

8.1 The following principles will be used to establish Divisional budgets:

1. Budgets will be managed to the levels approved by the Trust Board and any changes to budgets including budget virements must be agreed by the Chief Executive and Director of Finance. Any increases to budgets must have a clear source of funding.

2. Income and expenditure will be fully allocated to Divisional budgets and trading accounts will be established as part of this
3. Expenditure budgets will be based on 2005/06 Month 10 forecast outturn levels adjusted for 2006/07 inflation

· Funding for 2006/07 pay awards will be allocated to budgets as they are agreed
· Funding for 2006/07 non pay inflation is being allocated to baseline Divisional budgets at 1% for general non-pay and X% for energy (level to be agreed)

4. Non recurrent items from 2005/06 will be removed from the 2006/07 budgets as part of the Turnaround process

5. Income budgets will be based on;

· Agreed SLA values with Primary Care Trusts
· Teaching, training and research income set on agreed contracts
· Private patients and other income set on estimated Month 10 forecast out turn levels plus 4% for 2006/07 inflation

6. PCT purchasing levels will be fully reflected in budgets as part of the Turnaround programme. Divisions are expected to change costs in accordance with these changes as part of the Turnaround programme.

7. Manpower budgets to be amended to reflect agreed Divisional budgets

8. Savings of £15.3 million will be removed from Divisional budgets

8.2 Draft Divisional budgets are being prepared based on these principles with an audit trail to 2005/06 budgets and 2005/06 actual spend and income. These budgets will be finalised and allocated to cost centre level for presentation to the Trust Board on 6th September.

8.3 Monthly run rate target must be agreed for Divisions as part of the overall agreement of budgets.

9. SUMMARY AND RECOMMENDATIONS

9.1 The Trust Executive is asked to consider the progress with the objectives to be met by the end of August.

9.2 The actions set out in this report will continue to be implemented with a full report to the Trust Board on September 6th.

9.3 Divisional management teams must ensure that Divisions implement detailed actions as set out in this report and other relevant communications.
David Law
Chief Executive
West Herts Trust

Sandy Hogg
Director of Finance (Beds and Herts)
East of England SHA