Monitor Financial Plan Summary

August 2012

About us

Peterborough and Stamford Hospitals NHS Foundation Trust was formed on 1 April 2004.

The Trust provides hospital services to our local community and to a catchment that extends to a 30 mile radius. We employ more than 3,500 staff across our two hospitals. This includes staff who are part of the Ministry of Defence Hospital Unit which is based at Peterborough City Hospital.

New and developing hospitals

Previously housed on three Peterborough sites - Peterborough District Hospital, Edith Cavell Hospital and the Maternity Unit - the Trust moved into its new 612-bed Peterborough City Hospital in November 2010. This move marked the dawn of a new era for the Trust - delivering healthcare in a hospital that ranks among the best facilities in the UK.

Additionally, this year, together the local Clinical Commissioning Group, we launched a clinical strategy for our Stamford and Rutland Hospital, which will offer services for the people of South Lincolnshire and beyond over the next five to 10 years. This strategy looks to improve facilities and to make better use of the extensive site.

Quality of services

Delivering the highest quality of care to our patients is the top priority of the Board and our staff – and for the most part, we do well.

Our Hospital Standardised Mortality Rates figures are consistently better than average for the NHS and have been steadily improving over the last year.

We achieved full compliance with the Care Quality Commission's essential standards. And the quality of key non-clinical services has recently been rated 'excellent' by the Department of Health's Patient Environment Action Team.

Providing a range of services

The new City Hospital's excellent facilities include:

- a state-of-the-art radiotherapy unit
- an emergency centre with a separate children's assessment unit
- a dedicated women's and children's unit
- a new respiratory investigations facility
- inpatients are cared for on wards where 57 per cent of beds are in single rooms with en-suite facilities, or in four-bedded bays which each have their own bathrooms

Last year, across the Trust, we:

- saw over 363,000 patients in new and follow-up outpatient appointments
- treated almost 85,000 patients in our emergency department
- admitted over 40,000 emergency patients
- admitted 33,500 day cases and a further 8,000 elective patients
- undertook almost 216,000 diagnostic scans
- delivered 4,680 babies

Our strategy

The Board of Directors has reviewed the Trust's strategy and agreed that we should focus on three main areas, with agreed key objectives:

1. Doing the very best inside our hospitals - through improving quality and clinical performance and organisational development

Doing the very best inside our hospitals	Key objectives
Quality & Clinical Performance	Achieving the highest quality across the three domains of Patient Safety, Patient Experience and Clinical Effectiveness, by focusing always on the needs of our customers (patients, relatives, the public). Achieving the highest performance by seeking always to treat patients in the most effective way, thereby optimising patient activity and throughput, and making best use of our staff and facilities.
Organisational development	Redesigning patient pathways, clinical and departmental relationships and workforce skill sets to ensure best practice internationally becomes our common practice. Achieving the highest standards of clinical engagement, leadership, accountability, performance and governance so as to create an organisation whose culture and behaviours can meet the challenges of the next five-10 years.

2. Getting value for money from our hospitals - through productivity and efficiency and maximising the value of the local health system's estate

Getting value for money from our hospitals	Key objectives
Productivity and Efficiency	Achieving the highest productivity through a challenging cost improvement programme and the application of 'Lean' techniques and benchmarking. Disinvesting in non-core services where we cannot cover our costs with our income.
Maximising the value of the local health system's estate	Creating space in Peterborough City Hospital to treat more patients and develop our business, by optimising our patient throughput and clinical productivity and by selective rebuilding projects. Redeveloping Stamford Hospital to offer the best facilities to local people and to make the site fully productive. Cooperating with public sector partners in Peterborough to rationalise and make fully productive the public sector estate in the city.
Potential business development opportunities	Securing our current patient base and seeking to expand it in counties to the north and west (Lincolnshire, Leicestershire, Rutland, Northamptonshire). Developing our specialist services, especially in cancer and renal medicine. Developing our elective surgical portfolio, especially in orthopaedics. Developing a private patient unit (subject to business case).
Requirement for PFI support	Seeking to minimise the cost of the PFI to the Peterborough health economy, through collaboration with partners regarding making best use of the City Care Centre. Working with Department of Health and Treasury to secure a long term solution to make the Peterborough PFI hospital affordable.

3. Making the most of our hospitals by securing and growing our business through strong relationships with others

Making the most of our hospitals	Key objectives
Securing and growing our business by getting relationships right with others	Working always in close collaboration with the regulatory authorities, the Department of Health and National Commissioning Board, Health and Wellbeing Boards, MPs and Councillors, Governors, Members and the public.

Why we need a financial plan

Whilst quality and clinical performance are our priorities, the Trust has a huge financial problem. Last year we recorded a financial deficit of £45.8m and this year we forecast a deficit of £54.3m.

Consequently, we are in breach of our terms of authorisation with Monitor, the regulator of foundation trusts.

Because of our huge financial problem and because we are in breach of our terms of authorisation, Monitor has required us to develop a strategy and a plan to tackle our deficit. The draft of this five year plan was submitted in May 2012 and over the summer; we have worked with Monitor to refine the details.

This document is a summary of that plan.

Overview of our financial plan

The plan tells us that **theoretically**, the Trust can get back into financial balance over five years. The key word (and massive caveat) here is **theoretically**. This caveat is emphasised because:

- to achieve this, the Trust must deliver a huge efficiency programme. It must attract very substantial new business (additional patients) and it must agree special Department of Health support for the excess PFI cost of the new Peterborough City Hospital

- each of these three elements of the plan carries very significant risk – and none of them can be achieved without the Trust working in close partnership with, and with the active support of, other parts of the NHS

- of these risks and dependencies, the Trust must continue to look for other, additional measures which will enable it to achieve a sustainable position.

To put it another way, the financial plan tells us how steep a hill we have to climb, financially, but it also tells us that we will only get to the top of that hill if a long list of things all come right and if we get huge support (in different ways) from other parts of the NHS and from the Department of Health.

The numbers are frighteningly large – and would require delivery of efficiency savings by years four and five which are (we believe) unprecedented in this country and which may prove well beyond our reach. The business growth we require over five years can only be achieved if health services are substantially reconfigured across a wide area – and this is something we can influence but not control. And the level of special PFI support we need from the Department of Health may be significantly more than the Department would be prepared to provide.

Background to our financial situation

Our financial plan looks forward; so it does not analyse how the Trust's deficit has arisen.

However, we know that there are three main background reasons for our financial problems:

1. Pressure on the NHS budget and on acute hospital budgets in particular, across the country, because of the position of the whole national economy and the public sector deficit. This is a national issue – not unique to us.

2. The way health services are currently configured in this country (including in our region), with too many hospitals, many of which are too small, all trying to do almost everything, and with not enough integration between hospital, community and primary care services. This is national issue – not unique to us.

3. The very high PFI cost of our new Peterborough City Hospital.

This is confirmed by a KPMG report on Peterborough and Stamford Hospitals, commissioned by Monitor and published in June 2012. KPMG used slightly different headings but basically described the same things as the main sources of our deficit:

PFI (structural costs)	£22 million
Backlog CIPs/Financial Control	£12 million
Income/Commissioning	£10 million
One-off costs for 2011/12	£2 million
	£46 million

Private Finance Initiative

The 'structural costs' of the deficit represent the difference between the actual charges for the PFI (which includes interest and depreciation) and those that are regarded as affordable based on the latest guidance for new PFI schemes.

Backlog of cost improvement plans/financial control

Between 2007/08 and 2009/10 the Trust delivered less efficiency savings than the national requirement. Consequently the Trust's cost base was higher than planned.

Income/Commissioning

Income is £10 million less than required due to a combination of penalties levied by commissioners, additional patients being treated (not all activity has been paid for), and the assumed income from the District Hospital site not having been received.

One off costs

In addition, to the elements described above, during 2011/12 a range of other costs were incurred in developing the turnaround plan for the Trust (including costs of special support and advice to drive the turnaround of the Trust and anticipated redundancy costs).

How we can return to a sound financial footing

1. Our baseline projection

Our financial plan begins with a baseline projection. This takes account of what we expect from the additional challenges which every acute hospital in the country is facing (income deflation and reduced activity) and a very ambitious cost improvement programme and one-off costs of delivering those cost improvements.

Income deflation – the NHS tariff (that drives how we get paid for each patient that we treat) is expected to be reduced by the Department of Health during each year of the plan period – i.e. we expect to get paid less for each patient year by year. The combination of reducing prices and inflation on costs mean that the Trust will need to deliver savings of between 4 and 5 per cent per annum to avoid making its financial position any worse.

Reduced activity – our commissioners are planning to develop other alternatives to in-hospital care and are planning to reduce the number of patients that we treat.

Cost Improvement Programme - our plan contains £58.7m of savings over the next five years which, if delivered, would make us one of the most efficient hospitals in the country. This includes what is called a 'stretch target' i.e. driving efficiency to the absolute maximum.

We do not believe such a high level of efficiencies could be driven through in a trust of our relatively modest size without combining their delivery with some business development and/or system re-configuration – and even then it may not be deliverable.

The beneficial impact of the cost improvements is reduced in the early years by substantial one-off costs required to drive those cost improvements, including anticipated redundancy costs.

Sadly, because of anticipated income deflation and reduced activity, even £58.7m of cost improvement savings would broadly maintain the underlying annual deficit at its current level.

Extract from Monitor Business Plan (submitted 31 May '12 - inflated)	**2012/13 £ms**	**2013/14 £ms**	**2014/15 £ms**	**2015/16 £ms**	**2016/17 £ms**	Total over 5 years £ms
Projected full year deficit	**-54.3**	**-51.8**	**-51.2**	**-50.1**	**-51.8**	
Incorporated in the plan:						
Impact of income deflation / cost inflation		-10.9	-11.2	-9.5	-9.7	-41.3
Net impact of activity reduction		-4.6	-1.7	-1.4	-1.7	-9.4
Recurrent cost improvements	13.2	12.9	12.9	9.9	9.8	58.7
One-off delivery costs	-10.8	-5.7	-5.2	-2.9	-2.9	

Funding requirements associated with our baseline projection

The Trust has sufficient cash to operate until end of November 2012, thereafter external cash funding will be required in December 2012.

In order to mitigate its funding requirement in the short term the Trust's Commissioners have agreed to accelerate contract income for both February and March 2013 to April and May 2012 respectively. Whilst this income provides sufficient cash for the Trust to operate until end of November 2012, external cash funding will be required thereafter. By 31 March 2013 the cash requirement of the Trust will be c.£50m.

2. Getting to financial balance

What else needs to be done to return the Trust to a sound financial footing?

Develop our business to optimise the use of the hospital

We are working with our commissioners and other stakeholders to identify services that could be expanded to attract more patients (new business) to our hospitals. Expansion in this way will help us to maximise the benefit that is delivered through our hospitals.

We are currently reviewing the opportunity to expand a number of services that would offer additional patient benefit and provide significant financial contribution (including radiotherapy and orthopaedics).

The Board has set an overall business development target to deliver £25m per annum of additional surplus by 2016/17.

Make our PFI hospital affordable

We are working with the Department of Health to develop a solution that makes the PFI hospital affordable.

We have assessed the size of our current estate costs and compared them to the latest Department of Health affordability guidance for new PFI hospitals. This indicates an excess cost of between £24m and £26m over the plan period (assuming that the Trust's business development/system re-configuration plans are delivered).

Additional measures that will help to return the Trust to financial balance

Additional measures	2012/13 £ms	2013/14 £ms	2014/15 £ms	2015/16 £ms	2016/17 £ms
Business development / system re-configuration (high case)	3	10	18	21	25
Support for excess PFI-related costs	24	25	25	25	26

Getting to financial balance

If we deliver our productivity savings plans, achieve our business development plans and agree a solution with the Department of Health that makes the PFI hospital affordable, the Trust could **theoretically** record a small underlying surplus in 2016/17.

	2012/13 £ms	2013/14 £ms	2014/15 £ms	2015/16 £ms	2016/17 £ms
Projected full year deficit	**-54.3**	**-51.8**	**-51.2**	**-50.1**	**-51.8**
Add : Business development / system re-configuration (high case)	3	10	18	21	25
Add : support for excess PFI-related costs (post business developments / system re-configuration)	24	25	25	25	26
Add back : One-off costs of delivery after adjusting for staff re-deployment relating to business development	10.6	3.7	3.8	2.5	2
Underlying surplus/deficit pre-delivery costs	**-16.7**	**-13.1**	**-4.4**	**-1.6**	**1.2**

Maintaining and improving patient experience

The Board of Directors is aware of the risks in delivery the financial plan which include:

- Possible deterioration of quality standards
- Possible lack of clinical engagement
- Possible gaps in workforce capability and capacity
- Possible failure to achieve cost improvements targets
- Possible lack of stakeholder support to drive the health system rationalisation and business developments necessary to support the delivery of the stretch target
- Possible lack of co-operation across whole health economy
- Possible increased national/local income penalties
- Possible reduction in or delayed receipt from either land sale proceeds and external funding support

Risk mitigation

To mitigate these risks, we are doing a number of things:

- Increasing clinical engagement in running our hospitals – clinical directorates, led by clinicians, have already been established.
- Reviewing all savings plans for their impact on the quality and safety of patient care is in place to ensure that any adverse impacts can be mitigated.
- New ways of collecting and utilising patient views are being put in place.
- Discussions are ongoing with local, regional and national organisations to clearly define our issues to ensure quality patient care in Peterborough and Stamford hospitals is supported.
- The Trust's Quality Account sets clear priorities for the year, progress on which is monitored by the Board on an ongoing basis.

Conclusion - Where does the financial plan take us?

The strategy and the financial plan give us a lot to get on with. We know we must achieve this year's efficiency target of £13.2 million and – as a minimum – the savings required from years two and three. This is to ask no more than is being asked of every acute trust in the country. We also know we must pursue business growth to make best use of our hospitals.

But the scale of the numbers – especially in years four and five – and the huge risks to delivering them, mean that this plan does not really solve our problem. All it does is offer a theoretical way of doing so.

This plan is, therefore, just the beginning. It tells us what we need to get on with now, but it also tells us that we need to find other – probably more radical - ways of solving our problems.

In particular, we need to find imaginative ways of reconfiguring services in this part of the country.

So our task is to get on with the first parts of the plan with the utmost energy, while simultaneously actively looking at how the health system locally can be adapted to make it more efficient and sustainable for the future.