



Budget Scrutiny 2014 Briefing Note January 2014



- 1.1 At the start of 2013-14 the Trust had a financial gap of £37m.
- 1.2 Following discussions with the National Trust Development Authority (NTDA) and the Trust Board it was agreed that the Trust would plan for a deficit of £13m and a cost improvement challenge of £24m. (6%)
- 1.3 The Trust finds itself in this financial position due to a number of factors: -
 - a) Quality investments – In 2013 the Board decided that investment was required in some key quality initiatives particularly additional nurse and midwifery numbers.
 - b) Savings achievement - The Trust has not achieved all of its savings targets in recent years – this has meant that the shortfall has been carried forward. This builds a bigger financial problem year on year.
 - c) Funding – hospitals are funded based on the work they undertake. There is a national price for that work. However the national price is adjusted based on the region and this adjustment aims to represent the cost of delivering services in that region. This is called the market forces factor or MFF. The Trust's MFF is one of the lowest in the country so the Trust receives less money for delivering the same services than many hospitals further afield such as Bristol, Birmingham or London. Most costs are not subject to regional variation i.e. all staff are paid under nationally agreed contracts (Agenda for Change and consultant contract) so funding gets varied but costs are not that different.
 - d) Range of services – The Trust provides many services for the local population, this is especially necessary given the geography of the South West as the Trust wants to make access to specialist care available in the Peninsula. However many of the services provided do not cover their full costs and therefore the Trust has a higher number of loss making services than other hospitals.
- 1.4 The future outlook is equally challenging. Assuming the Trust can deliver a revenue deficit of £13m in 2013-14 and after adjusting for one off items within this figure, the Trust will end the year with an estimated recurrent deficit of c£18m (the true underlying position after adjusting for one off and full year effect items).
- 1.5 In addition the income for NHS Trusts will continue to deflate over the next two years and costs of healthcare (pay, drugs etc.) will continue to rise. To meet these challenges providers of NHS Healthcare will be required to deliver efficiency savings of 4% per annum. This equates to around £16m per annum for Plymouth Hospitals NHS Trust and this together with the Trust's opening position means that savings of around £50m will be required to return to financial balance over the two years 2014-15 and 2015-16.
- 1.6 This financial challenge is prior to any impact on the Trust as a result of the implementation of the Better Care Fund during 2014-15.
- 1.7 Given the scale of the Trust's financial challenges the Trust were required to submit to the National Trust Development Authority a financial recovery plan which was submitted at the end of October 2013. Within this financial plan the Trust is planning a staged recovery and is likely to have a further deficit in 2014-15 and aiming to return to a breakeven position in 2015-16. The extent of the deficit in 2014-15 is not yet known as the Trust works with the NTDA and Commissioners on what can be achieved for 2014-15.
- 1.8 In approaching this significant savings challenge the Trust is committed to maintaining safe and high quality services.

- 1.9 To arrive at the planned savings programme the Trust commissioned KPMG to support the Trust in developing a pipeline of schemes across 4 work streams – estates, support services, clinical productivity and workforce.
- 1.10 The schemes identified for 2014-15 are largely delivered through additional income and further clinical productivity including: -
- significant improvements in clinical productivity resulting in the reduction of acute hospital beds and theatres lists undertaken per week
 - substantial non-pay savings across supply chain, procurement and medicines
 - significant changes to clinical administration processes and the establishment of clinical offices and other workforce changes impacting on key staff groups such including senior management.
 - car parking income charge rises
 - continuing increases in commercial income
- 1.11 In 2015-16 however the savings schemes can only be achieved with more radical approaches to change including stopping services or renegotiating income for services that are not viable, major commercial partnerships for all back office and clinical support services (assuming such a market exists) and the implementation of electronic paper records.
- 1.12 The scale of the financial challenge the Trust faces is the key rationale behind the clinical leadership model in place. All of the Trust's services are led by clinical staff. The Trust management team is working with each of these leaders to ensure that the services provided are clinically, financially and operationally viable. This is being taken forward through a series of reviews with each of the service lines to review in detail their finances – the work they do, the income they earn and the costs they incur – this in turn will lead to a series of recommendations for each service which will need to include the actions needed to achieve clinical, operational and financial viability. Early work has already commenced on some of these issues including focus on loss making procedures with service lines and assessment of the Trust's position against specialist services national specifications.
- 1.13 The Hospital Board will not achieve savings by just cutting services, although where services cannot improve financial viability reducing service provision is a real consideration for us. The recovery of the Trust's financial position will require a relentless focus on productivity, transformation and cost control and this work is being overseen by a weekly Programme Board (PB) which is chaired by the Chief Executive and attended by all executive directors.
- 1.14 The Trust is committed to working with the Council to deliver its own corporate objectives as well as securing sustainable health and social care services for the residents of the city and beyond. In the context set out above it will therefore be extremely important that the Council and the Trust continue to work together and in close partnership so that the actions taken to secure sustainable services into the medium term are complimentary and do not have unintended consequences for other organisations and agencies.
- 1.15 In this regard the interface between public health, hospital care, primary, community and social care needs careful consideration to ensure that services for our community are integrated and the Trust is committed to continue to work across organisational boundaries to achieve this and the Better Care Fund provides a vehicle for this work.