

Briefing for Kent Health Overview and Scrutiny Committee (HOSC) – East Kent Financial Recovery Plan

May 2019

Background

In April 2018 the east Kent Clinical Commissioning Groups (CCGs) produced a financial plan for 2018/19 that generated a £24m deficit, assuming a £19.5m Quality, Innovation, Productivity and Prevention (QIPP) programme. This financial plan was approved the Governing Bodies of the CCGs and NHS England (NHSE). The £24m deficit was matched by £24m Commissioning Support Funding of £24m, resulting in a control total of break-even. However, at that time the financial plan also identified unmitigated risk of £16m. By reporting this unmitigated risk, the east Kent CCGs were highlighting the high possibility of over-spending by £16m

During July and August '18 there was further analysis of the risks facing the CCGs in 2018/19 resulting in an increase in risk value from the original £16m to £41m with a high probability of materialising. This shift in risk of £25m was due to a number of factors including:

- “Optimistic accruals” in ‘17/18 accounts have resulted in an accumulating deterioration in the underlying financial position of the CCGs in 18/19.
- The Expert Determination regarding the service-level agreement (SLA) with the CCGs’ main provider has been taken fully on the “downside”.
- The main acute contract in 2018/19 was agreed with an activity level below that necessary to achieve referral to treatment (RTT) maximum waiting times.
- The main acute contract was set at a value with a built-in over-performance highly likely.

Also, during July and August '18, the 2018/19 QIPP plan was assessed independently as part of the national “QIPP4 programme”. This review identified potential material slippage of £10m in the QIPP programme unless action was taken.

As an immediate response the east Kent CCGs commissioned additional financial turnaround and senior PMO capacity. This additional capacity and capability existed through-out 2018 and into 2019 improving the internal system and process, increasing organisational grip and facilitating the period of stabilisation and recovery.

Stabilisation and recovery

With identified risks (£41m) and projected QIPP slippage (£10m), the east Kent CCGs were facing a challenging situation, recognising that full recovery in year was extremely difficult.

Therefore, the CCGs have developed a stabilisation and recovery plan that will mitigate £26m risks resulting in a forecast deficit of £49m in 2018/19 with plans to ensure that the east Kent CCGs move towards balance in 2019/20.

During this period of stabilisation and recovery, the Managing Director commissioned the following reviews:

- Governance Review by PWC
- Expert Determination Review by Internal Audit (TIAA)
- Strategic Review of the east Kent acute reconfiguration by EY
- QIPP Review by Deloitte as part of QIPP4.

As a result of this, the Managing Director and the senior leadership team are:

- Working within the Kent and Medway Sustainability and Transformation Partnership STP to deliver the transformation change agenda across east Kent that will deliver more effective high quality services achieving both performance and financial standards and targets
- Developing the East Kent System Board as the vehicle to implement the whole system Improvement Plan
- Implementing new governance systems, process and structures in order to streamline processes, procedures and policies to facilitate increase challenge and support
- Adopting a matrix way of working with an effective project management office PMO function supporting the new approach.

Financial performance in 2018/19

In summary, a revised Financial Plan was submitted to NHSE that moved the control total deficit for 2018/19 from £24m to £49m, recognising that there was a further £8m of unmitigated risk that could materialise, before Commissioning Support Funding. The delivery of this recovery plan is based on the foundation of stabilisation in 2018/19, led by the Managing Director and Clinical Chairs, driven by the Executive Directors and owned by the four CCGs in east Kent. It also identified a number of risks that were increasingly difficult to mitigate; in particular potential over-performance by the acute providers and increasing demand for continuing healthcare (CHC) assessments.

Unfortunately, despite the CCGs over-performing in QIPP delivery and managing further in year additional risk (see the following table), the above unmitigated risk of acute activity performance and increased demand for CHC assessments materialised, resulting in the east Kent CCGs generating a £57m deficit.

Stretch Targets £'000			
Local Care (incl. Urgent & Emergency Care)		M12 (Gateway 5D)	
		2018/19 planned savings £'000	2018/19 Delivery £'000
CHC	3,000	6,355	3,849
Medicines Optimisation	9,000	3,503	2,622
Planned Care, RightCare & Clinical Variation	5,000	8,014	6,971
Mental Health	1,000	1,550	454
Contractual/Other	8,000	1,000	1,616
Children's Services	1,000	9,004	4,424
Totals	33,000	1,106	862
		30,532	20,799

The financial plan for 2019/20 for the east Kent system

The east Kent system out turned 2018/19 with a deficit of £99.2m, and a recurrent deficit of £100.7m, a deterioration on the deficits of the previous year.

The system is being asked to deliver a £30m improvement in the recurrent deficit in 2019/20 – see the following table.

To achieve this the CCG is required to deliver QIPP of £35m (4.1 per cent of non-hypothecated spend) and the Trust cost improvement programme (CIP) requirement is £30m (6 per cent of influence-able spend), this is against a backdrop of three years of 5 per cent savings targets but increasing deficits.

The Trusts control total was calculated based on an expected forecast out-turn (FOT) that was £12m lower than that finally delivered, based on month six data, and therefore does not reflect the true underlying position of the Trust. The system is being asked to reverse a three year run rate of increasing deficits.

At this stage these factors mean that the Trust revised control total cannot be delivered within one financial year and a longer term plan is needed:

*Excluding PSF/FRF/CSF payments.

East Kent Financial Position	Amount £000s
2018/19 Forecast Outturn - Trust	(42,155)
2018/19 Forecast Outturn - CCGs	(57,078)
2018/19 Combined FOT	(99,233)
2018/19 Recurrent Deficit carry forward - Trust	(52,250)
2018/19 Recurrent Deficit carry forward - CCGs	(48,452)
2018/19 Combined Recurrent Deficit carry forward	(100,702)
2019/20 Control Total - Trust*	(36,569)
2019/20 Control Total - CCGs*	(33,900)
2019/20 Combined Control Total*	(70,469)

The CCGs and Trust have signed an aligned incentive contract based around £440m. As this value includes circa £20m of high cost drugs that element will remain variable to allow benefits of savings to be shared equally across parties.

By signing the aligned incentive contract with a fixed value, the system has been able to:

- increased certainty for both parties
- released contingency held to reduce the overall system control total gap by £6m
- aligned focus to deliver transformation of services and drive cost from the system.
- implement a single system PMO, reporting system and reports
- joint system management of contingencies to manage total system risk.

The single PMO is being established in order to ensure the timely development and delivery of the System Programme (CIP/QIPP) for east Kent. It will further:

- Identify areas of joint working to further delivery system benefits, eight areas have been identified and project leads currently agreeing deadlines, but cardiology as example has clear delivery timeframe agreed and joint approval.
- Support through a single team and process the delivery of the transformation required – first meeting on how this will be delivered and a 'non virtual way' timetabled for late April
- Review and agree additional schemes for implementation across the system
- Provide PMO support for all QIPP and CIP schemes, through one database reporting system, to be fully implemented in next 2 weeks
- Ensure all proposals are cost based and stranded costs clearly identified and understood.

This will be very process / delivery focused and will need to be supported and held account by a system clinical and CEO/AO forum, currently the System Board provides this but final governance, considering ISC and the wider system will be resolved in the next month.

The east Kent system is now in the process of developing a long term financial plan that will aim to bring the system into financial balance by 2021/22.

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