

By: Mr P Lake, Cabinet Member for Social Care and Community Health

To: Cabinet – 7 March 2005

Subject: **FINANCING OF THE HEALTH ECONOMY**

1. During November 2004 the NHS Overview and Scrutiny Committee interviewed Mr Bob Alexander, Director of Finance and Information, Kent and Medway Strategic Health Authority, the Directors of Finance and in the majority of cases the Chief Executives of all the Acute Hospital Trusts, Primary Care Trusts and Mental Health Trusts in Kent. On this occasion they Committee also interviewed the Director of Finance for the Medway NHS Trusts because of the patient flows from West Swale and the Isle of Sheppey into Medway Maritime Hospital.
2. Attached is a copy of the NHS Overview and Scrutiny Committee report.
3. Dr T R Robinson, Mr R W Ford and Mr G Rowe will be present to answer Cabinet Member questions on the outcomes of this piece of work.

Contact Officer: Paul Wickenden
Tel No: (01622) 694486
e-mail: paul.wickenden@kent.gov.uk

Contact Officer: Carol Spink
Tel No: (01622) 694292
e-mail: carol.spink@kent.gov.uk



**NHS OVERVIEW AND SCRUTINY COMMITTEE
FINANCING OF THE HEALTH ECONOMY
UP-DATE 2004/5**

December 2004

CHAIRMAN: DR TONY ROBINSON

FINANCING OF THE HEALTH ECONOMY - CONTENTS

Executive Summary	1
1. INTRODUCTION.....	2
2. RECOMMENDATIONS	3
3. Strategic Context.....	4
4. Results of financial year 2003/4.....	5
5. East Kent.....	12
6. South of West Kent	15
7. Dartford	18
8. Medway/Swale	19
9. Mental Health	20
10.Update at 31 January 2005.....	21
11. Conclusions - future outlook.....	22
APPENDIX – The review process.....	24

Executive Summary

Kent County Council shares with the Health organisations a commitment to help Kent people to live long and fulfilled lives and enjoy the best health services that can be achieved. These come at a high price, and the health organisations have been allocated growth within their budgets to improve services. At the same time health organisations began a period of reconfiguration to ensure that control over health provision has become more local.

Such a turbulent period has made financial management more difficult. The NHS in England is subject to increasing demands to improve operational and service performance to a higher gear. All public service organisations know the dilemma of cash limited budgets and unlimited public demand. The development of strategies to provide good services while keeping within budgets takes time. In this third phase of Financing of the Health Economy, the NHS Overview and Scrutiny Committee heard from health organisations which had battled with these difficulties. Some are becoming successful, and the committee is able to present an up-date on the progress made since autumn 2003.

The four main recommendations from 2003 have been repeated for 2004, as they remain current. NHS Overview and Scrutiny Committee found that many of the 2003 recommendations have already been completed, and there were many things for which the health organisations could be congratulated. In particular the committee is grateful for the improved flow of communication.

Led by the Strategic Health Authority, the health organisations now are working together in four distinct health economies; and it is by pooling expertise and finances that they can manage changes to come through Payments by Results and Patient Choice over the next two years.

1.INTRODUCTION

OVERVIEW AND SCRUTINY OF THE NHS

The Health and Social Care Act 2001 makes statutory provision for local authorities with social services responsibilities to extend their scrutiny and overview functions to cover Health. Kent County Council's National Health Service Overview and Scrutiny Committee became a legal entity when the local authority Overview and Scrutiny Committee's Health Scrutiny Functions Regulations 2003 were implemented on 1 January 2003. The Department of Health's guidance for the Scrutiny of the National Health Service has been followed when undertaking this review.

SELECT COMMITTEE REPORT UP-DATE

This up-date report follows a full Select Committee report compiled in the autumn of 2003. The original select committee was composed of seven Members of the County Council; 4 Conservative, 2 Labour, 1 Liberal Democrat, and 1 CHC representative. This up-date report is based on witness sessions which were attended by the full NHS Overview and Scrutiny Committee, including representatives from the Public and Patient Involvement Forums.

The Terms of Reference for the original topic review were:-

"To investigate and identify any improvements to the financing of the Health Economy in Kent and its impact on Health, Social Care and Community including clarifying the following: -

- (a) The current position with regard to financing the Health Economy in Kent;*
- (b) The demographic and cost issues for the South East of England;
and*
- (c) The financial flows and the transactional costs".*

The Select Committee agreed that this review would be undertaken in phases. The first phase in 2002 concentrated on the funding mechanisms and current financial position of the health economy in Kent.

The second phase of the review in autumn 2003 addressed the Terms of Reference in full. Because of the importance of the topic to the people of Kent, the committee agreed they would re-visit the topic for an up-date in 2004.

This report focuses on:-

- events in the four health economies since November 2003,
- the changes within the four health economies since that time,
- The health economies' view of the likely outcome of financial year 2004-5 and beyond.

Details of the witnesses seen are shown in Appendix 1, together with a full list of the recommendations made in autumn 2003. Summarised transcripts of the witness sessions are available on request in a separate volume.

2. RECOMMENDATIONS

Of the original 19 recommendations, NHS Overview and Scrutiny found that many had been achieved. The original four most important recommendations remain relevant:

For the Strategic Health Authority and All Health Organisations in Kent:

All parts of the health economy should recognise the changes in the financial regime which now requires them to: -

- 1. Continue to take seriously the fact that they must balance their budgets, live within their means and not overspend.**
- 2. Monitor the realism of savings plans and their implementation whilst maintaining high quality care and access targets.**
- 3. Maintain the level of capital investment that is sufficient to maintain the value and quality of the estate and equipment, whilst recognising any capital investment must be affordable in revenue terms.**
- 4. Keep a tight control on budget management in view of the high level of savings targets set in 2004/5.**

3. Strategic Context

During 2003/4, planned initiatives came into force which affected the health organisations financially. These were:-

1. The **European Working Time Directive**. This applied a 56 hour week for Junior Doctors and came into force in August 2004
2. The **General Medical Services Contract**. (New GPs' contract) came into force on 1 April 2004. General Practitioners were able to opt out of providing out of hours' services for their patients. All K All Kent & Medway PCT's had put alternative Out Of Hours services in place by September 2004
3. The **new consultants' contract**. This became effective from 1 October 2003 for those consultants who formally opted to transfer on to it. Its financial effects are now being seen.
4. **Agenda for change**. This brings a career structure to NHS workers and begins to be implemented from 1 October 2004.
5. **Payments by Results**. About 15% of medical procedures, or Healthcare Resource Groups became chargeable by a standard tariff multiplied by volume from 1 April 2004. Many more follow on 1 April 2005.

Within Kent, there are current consultations or discussion papers on:-

Women's and Children's services in the South of West Kent
Orthopaedic and Trauma in the South of West Kent
The Review and Redesign of In-patient Services - East Kent Mental Health
Modernising Mental Health Services - West Kent.

At the same time, the reconfiguration of East Kent hospital services continues, according to the agreed plan.

4. Results of Financial Year 2003/4

In autumn 2003 the health organisations seen by NHS Overview and Scrutiny knew they had a difficult task ahead of them. They were determined to meet their targets but were working through a difficult legacy of delayed reconfiguration and inherited debt. Although showing information that was already out of date, the latest published summarised NHS accounts for 2002/3, published in April 2004, showed what a comparatively difficult task the Kent and Medway health economies had before them. Kent and Medway was one of only six across England where there was a deficit across the whole health economy:

Strategic Health Authority Areas Reporting Deficits in 2002/3¹

Strategic Health Authority area	Net deficit across Authority area	Percentage of resources
	£ million	
Avon, Gloucestershire and Wiltshire	63.6	1.85%
South West Peninsula	20.6	0.84%
Kent and Medway	19.6	0.89%
Greater Manchester	5.1	0.11%
Cumbria and Lancashire	1.6	0.05%
Hampshire and the Isle of Wight	1.0	0.04%
Total	111.5	

East Kent Hospital Trust was one of seven achieving overspends of more than £5m:

NHS Trusts with overspends of more than £5 million		
NHS Trust	Deficit in 2002-03 £ million	Deficit as percentage of annual income
North Bristol	44.6	16.1%
Royal United Hospital Bath	24.8	20.5%
East Kent Hospitals	11.4	4.1%
Worcester Acute Hospitals	9.9	5.4%
United Bristol Healthcare	9.3	3.5%
South Manchester University Hospitals	7.0	3.6%
Royal Cornwall Hospitals	5.2	3.0%
Total	112.2	

Its recovery plan was in place but classed as 'may not be achievable' by the National Audit Office.

¹ NHS (England) Summarised Accounts 2002-2003 – National audit office.

Kent and Medway were one of only four in the country to receive an allocation from the 'NHS Bank', following a positive report by the Independent Review Panel's assessment of the East Kent Reconfiguration proposals. These were judged to justify special assistance due to specific issues in their health economies.

Special Assistance Mutual Fund allocations (Non-recurring funding allocations through the NHS bank)	
2003-04	£ million
Avon, Gloucestershire and Wiltshire	70
Surrey and Sussex	40
Thames Valley	25
Kent and Medway	17
Total	152

The Strategic Health Authority was one of four in England of concern to the Department of Health. The Kent health organisations, supported and performance managed by the Strategic Health Authority, were determined to improve their financial results and meet their service targets.

At the end of the financial year 2003/4, the Strategic Health Authority reported a deficit of just under £5m across the four health economies. This was supported by a surplus of £7.1m returned by the SHA themselves.

The most notable results were:

- East Kent Hospital Trust – were able to keep to their financial recovery plan using £17m from the NHS Bank and £7m support from the Strategic Health Authority. They also delivered total savings of £14.4m
- Maidstone NHS Trust ended the year with a deficit of £8.9m. Their position steadily worsened throughout 2003/4, but ended the financial year £900k better than they had been reporting to the SHA for much of the year.
- Dartford, Gravesham and Swanley PCT finished the financial year with a deficit of £5.6m, which had been expected and planned for.
- Medway NHS Trust's financial performance in 2003/04 triggered the enactment of an agreement brokered by the SHA with the Department of Health that enabled the Trust's pre-2001 incurred balance sheet deficit to be written out of their accounts.

The details of the 2003/4 financial year are shown on figure 1.

Figure 1

*The four Kent health economies***Kent Health Organisations - Summary of financial year 2003/4**

	Budget Limit/revenue resource limit	Audited outturn	Under+/ over- spend	Star rating	Notes
	£'000s	£'000s	£'000s		
Dartford & Gravesham					
Dartford & Gravesham NHS Trust	89,511	89,450	61	***	
Dartford Gravesham & Swanley PCT	209,312	214,904	-5,592	*	
West Kent NHS & Social Care Trust	99,875	99,851	24	*	
Total for the health economy			-5,507		
East Kent					
East Kent NHS Hospitals Trust	307,225	307,160	65	**	Financial support included in retained surplus £24m
Ashford PCT	91,936	91,832	104	**	Annual accounts 2003-4
Canterbury & Coastal PCT	164,120	164,102	18	**	Annual accounts 2003-4
East Kent Coastal NHS Teaching PCT	242,133	242,098	35	***	
Shepway PCT	100,419	100,280	139	**	Annual accounts 2003-4
East Kent NHS & Social Care Partnership Trust	51,136	51,361	-225	**	Have broken even over cumulative three year period.
Total for the health economy			136		
Medway					
Medway NHS Trust	125,247	122,875	2,372	**	Surplus fulfils their three year break even duty and puts them into slight surplus
Medway PCT	218,580	218,557	23	*	
Swale PCT	80,859	80,832	27	*	
Total for the health economy			2,422		
South of West Kent					
Maidstone & Tunbridge Wells NHS Trust	192,970	201,938	-8,968	No stars	'Less than robust' recovery plan was £3m short
Maidstone Weald PCT	188,353	188,353	0	No stars	£2.4m support received from SHA for provider functions. - repayable in 2004/5
South West Kent PCT	145,759	145,650	109	*	
Total for the health economy			-8,859		
Ambulance					
Kent Ambulance NHS Trust	27,427	27,427	0	*	
Strategic Health Authority					
Kent and Medway Strategic Health Authority	64,025	56,922	7,103		SHA Annual report
Total for the whole of Kent & Medway			-4,705		

The progress made by the Strategic Health Authority throughout 2003/4 has been sufficient for them to be removed from the Department list of Strategic Health Authorities of concern; a gratifying recognition of both the improvement in services and the ability to live within budget. They have been assessed as a 'good performing' SHA with demonstrable improvement on last year's performance

In the Department of Health letter confirmed their assessment in their Performance review letter:

*'Overall 2003/04 was a year of steady improvement for Kent and Medway.....Key targets such as A & E access, primary care access, outpatient waits and booking were achieved.This was against a backdrop of a relatively small and significantly less than forecast overspend.'*²

The Department of Health has praised the adoption of a whole systems approach across the area.

In financial year 2004/5, there has been an increase in budget levels, as planned, for the health organisations, and a simple comparison is shown in figure 2. With higher budget levels come greater commitments and further responsibilities as the Department of Health attaches targets to its greater investments.

Figure 2:

The four Kent health economies	2003/04 budget limit/revenue resource limit	2004/05 budget limit/revenue resource limit*	Increase to resource allocation due to funding flow changes (1)	Growth only revenue resource limit	Cash increase	% increase
	£'000s	£'000s	£'000s	£'000s	£'000s	
Dartford & Gravesham						
Dartford & Gravesham NHS Trust	85,589	94,225	-	-	8,636	10
Dartford, Gravesham & Swanley PCT	209,312	243,199	(22,840)	220,359	11,047	5
East Kent						
East Kent Hospitals NHS Trust	307,225	304,393	-	-	-2,832	-1
Ashford PCT	91,936	105,989	(12,364)	93,625	1,689	2
Canterbury & Coastal PCT	164,120	187,354	(19,800)	167,554	3,434	2
East Kent Coastal Teaching PCT	242,133	279,864	(25,975)	253,889	11,756	5
Shepway PCT	100,419	115,080	(10,582)	104,498	4,079	4
Medway						
Medway NHS Trust	125,247	134,144	-	-	8,897	7
Medway PCT	218,580	260,369	(26,313)	234,056	15,476	7
Swale PCT	80,859	101,570	(12,990)	88,580	7,721	10

² Department of Health Annual Review and Performance Letter, 17 September 2004

South of West Kent						
Maidstone & Tunbridge Wells NHS Trust	192,970	216,322	-	-	23,352	12
Maidstone Weald PCT	188,353	222,908	(28,806)	194,102	5,749	3
South West Kent PCT	145,759	177,322	(19,405)	157,917	12,158	8
Mental Health						
East Kent NHS & Social Care Partnership Trust	51,136	53,319	-	-	2,183	4
West Kent NHS & Social Care Trust	99,875	101,817	-	-	1,942	2
Ambulance						
Kent Ambulance NHS Trust	27,427	32,426	-	-	4,999	18

For 2004/5, the Kent and Medway SHA was able to submit to the Department of Health a balanced financial plan, with financial recovery plans in place where necessary. In its board papers presented on 17 November, based on the half-year results, the Strategic Health Authority reveals it has formally projected to the Department of Health a year-end breakeven position for its health economy. However individual organisations were projecting positions that aggregated to a total year end deficit of £9.5m. However the committee found that since that date the position has worsened and individual health organisations are now projecting year-end deficits that aggregate to over £15m. An analysis of the latest information available is shown on figure 3. Although there was evidence of management action and savings plans in place, there is no doubt that the four health economies will need further support from the Strategic Health Authority to approach break even at 31 March 2005. This will take the form of sharing best practice and savings ideas across organisations, challenging assumptions and convention, and working with economies to broker cross-boundary solutions rather than financial support. The Strategic Health Authority is still committed to delivering financial balance at the aggregate level across Kent and Medway for financial year 2004/5.

The committee heard from the health organisations and from the Strategic Health Authority about the progress of their financial plans and their view of the challenges to be faced in 2005/6 and beyond.

One of the characteristics of the whole systems approach is that the health organisations have worked together to address their problems. This has been so marked that it is now essential to consider each health organisation within its own health economy. The first one to consider is East Kent; where the hospital trust had the greatest financial problems to solve in 2002/3 and 2003/4.:

Figure 3

Kent Health Organisations - Projections for financial year 2004/5

The four Kent health economies	Budget Limit/revenue resource limit	Projected outturn	Under+/over-spend	Notes	Date of projection	Source
Dartford & Gravesham	£'000s	£'000s	£'000s			
Dartford & Gravesham NHS Trust	94,225	95,653	-1,428	Projected end of year position at end of October.	30.10.04	Board papers 23/11/04
Dartford Gravesham & Swanley PCT	243,199	245,207	-2,008	Adjustments for overspending for 2003/04(£6.2,) - support for 2004/5 £5.4m not yet made.	30.10.04	Board papers 25/11/04
Total for the health economy			-3436			
East Kent						
East Kent NHS Hospitals Trust	304,393	304,393	0	At 30/09/04 showing £960k overspend, but feel they can recover this	30.9.04	Board papers 5/11/04 - performance report September
Ashford PCT	105,989	105,989	0	Overspendings in out of area treatment, placements and GMS budgets - savings plan in place to save £750k	30.09.04	Board papers 26/11/04
Canterbury & Coastal PCT	187,354	183,179	-4,175	Overspendings on Placements, tertiary referrals, GMS contracts.	30.9.04	Board papers 25/11/04 - performance report September
East Kent Coastal NHS Teaching PCT	279,864	281,561	-1,697	Overspends of £3.4m have been managed down to £1.6m - savings plans still required.	30.9.04	September Performance Report - 29/11/04
Shepway PCT	115,080	115,781	-701	Overspendings on placements.	30.9.04	Finance and performance report April-Sept
Total for the health economy			-6,573			
Medway						
Medway NHS Trust	134,144	134,144	0	Variance from budget £1.3m at August but still forecasting breakeven	31.08.04	Performance report August 2004 - Board papers September
Medway PCT	260,369	260,369	0	Overspends of £1.4m but plans in place	31.08.04	Board papers 17 November 2004
Swale PCT	101,570	101,570	0	New resource limit includes funding for prison health services - reserves will fund overspend of £706k	30.09.04	Finance report to 30/09/04 - board papers 11 November
Total for the health economy			0			

South of West Kent						
Maidstone & Tunbridge Wells Trust	216,322	217,519	-1,197	Support from SHA of £6.6m + £3.1 m for ISTC. Potential deficit at year end could be £2m	30.10.04	Performance report to October 2004
Maidstone Weald PCT	222,908	226,808	-3,900	£3m projected overspend in tertiary referrals alone	30.09.04	Financial recovery update for SHA
South West Kent PCT	182,511	182,511	0	Overspend to 31/08/04 is £188k - increased savings target for high cost drugs	30.09.04	Financial recovery update for SHA
Total for the health economy			-5097			
Mental Health						
East Kent NHS & Social Care Partnership Trust	53,319	54,117	-798	To achieve break even needs savings of £1m to be made	30.09.04	Board papers 10/11/04
West Kent NHS & Social Care Trust	101,817	101,817	0	£44k deficit at month 6, but will break even for year. Risks include PCTs not funding provisions	30.09.04	Board papers 9/11/04
Ambulance						
Kent Ambulance NHS Trust	32,426	31,966	460	Reserves will fund Agenda for Change	31.08.04	Board papers 30/09/04 - Finance report.
Total for the whole of Kent & Medway						
			-15,444			

Note: The sources for this information reflect the latest available information to NHS OSC.

5. East Kent

The East Kent health economy includes:

One Acute Trust: East Kent NHS Hospitals Trust
Four Primary Care Trusts: Ashford PCT
Canterbury and Coastal PCT
East Kent coastal Teaching PCT and
Shepway PCT

The East Kent Area is co-terminus with the area served by East Kent NHS and Social Care Partnership Trust (the Mental Health Trust)

5.1. East Kent Hospitals Trust

East Kent Hospitals Trust now has to make the following savings to complete their recovery plan. They have some flexibility to make savings from non-recurrent or one-off items:

	Recurrent £m	Non recurrent £m	Total £m	Notes
2003/4	9.8	4.6	14.4	Already achieved
2004/5	8.8	6.0	14.8	
2005/6	9.1	6.0	15.1	
Total over 3 years	27.7	16.6	44.3	

The required savings in 2004/5 equate to 4.6% of their total turnover, and have risen from earlier versions of the plan issued in 2003 where the savings target for 2004/5 have been £9.1m.³ Their savings target has grown to £13.7m, plus another £1.1m shortfall identified when they agreed their local delivery plan – a total of £14.8m. The reason for this shortfall was the lack of full funding to reflect the full costs of Agenda for Change and the new consultants' contract.

In 2004/5, Hospital Trust has developed their successful approach from 2003/4. They have learned that savings required from their Directorates are only achievable if restricted to 2%. In 2004/5 this has identified £6.9m to date. They have identified £3.5m of savings throughout the whole trust and the health economy, and a further £3.8m of non-recurrent savings. Their savings 'shortfall' is reduced to £600,000 at the end of the half-year and East Kent Hospitals Trust are confident that they will breakeven in 2004/5. Of course this is subject to the management of substantial risks. They are making savings, through:-

- reducing the number of Agency staff (£1.2m)
- improving the procurement of goods and services (£1/2m)
- standardising products used (£100,000)

³ Financing the Health Economy NHS OSC Select Committee report 2003.

- consolidation of services within the trust (£1.2m over two years)
- Investing in technology to reduce running costs (£100,000).

At the same time, the Trust is managing to hit delivery targets, and is seeing 100% of patients in less than four hours in Accident and Emergency Departments. They are a 'two star' trust. The Chief Executive told the committee that their success does not mean there are no risks in maintaining this effort. They are working so hard the 'rivets are shaking' on the organisation. The Trust has retained a stable management team for some time and there is no doubt this has helped the stability of the organisation.

For 2005/06, there are further challenges. Agenda for Change will have further impact and they will be moving forward with the reconfiguration of services. They will still need to continue with further Directorate savings of 2%. They will then be moving into the detail of managing clinical practice, with collaboration with the Primary care trusts being key. The health economy will need to design patient pathways which are straight forward for the patient and avoid 'double handling' each patient and incurring unnecessary extra costs. This is a major challenge, but will improve the service for patients while making best use of resources. They are to be congratulated on their financial recovery and their zest for innovation.

5.2. East Kent Primary Care Trusts.

An extract from the East Kent Hospitals recovery plan reveals how much the Primary Care Trusts need to contribute towards it:

Health Economy support	2003/4 £m	2004/5 £m	2005/6 £m	2006/7 £m
Recurrent	3.0	4.2	4.2	0

It is assumed that this support will be replaced by income under the Payments by Results regime when this extends in 2005/6 – however it is not yet clear how this will work.

Although the East Kent Hospitals' Trust is a huge organisation, its structure as a provider means that it can be flexible in how it delivers its services. As Payments by Results comes into play, its income is secure if it is able to deliver the volume of medical procedures commissioned. When hospitals are operating at their full capacity, their costs are mostly fixed, so they benefit when they are able to operate more efficiently.

Primary Care Trusts have only a comparatively small provider function and their main function is as commissioners. This means that they are committed to paying for services and have no flexibility in how they do this. They have also been at the forefront of recent Department of Health changes and this has committed them further financially. They also have a statutory duty to break even each financial year. The Strategic Health authority reported that:

*Canterbury & Coastal PCT, East Kent Coastal PCT, Ashford PCT and Shepway PCT are at severe risk of breaching their statutory break-even duty in the absence of successful management action and intervention in the latter six months of the year.*⁴

However, through management action the financial position of these two PCTs has improved and by the end of December this risk had diminished.

A table of projections from the most recent board papers available is shown in Figure 3.

Ashford PCT reported a deficit of £750,000 at the half-year stage, but has designed an action plan to return to financial balance. The overspendings were caused on out of area treatments, placements, and the new GMS contract. They have surveyed and utilised under spent budgets to close the gap. Operational managers have agreed the identified savings, and they are confident this will not affect the standard of care. This is a relatively small target on their £105m budget. Ashford Primary Care Trust's contribution towards the East Kent Financial recovery plan is £414,000 in 2004/5.

Ashford PCT is looking forward to the announcement of the next three-year allocations for Primary Care Trusts. This is extremely important to them because of their steep rise in population. The allocations for the next three years are still based on Census data from 2001 for the three-year period to 2006. Whilst it is likely that the allocation would include a small amount of growth funding, the population growth in the town is between 2,000 and 2,500 people per year funding needs to be properly allocated to reflect this, with adjustments on a on a year by year basis. The Strategic Health Authority have recognised Ashford's problem and is pursuing their case with the Department of Health to recognise the needs of their growing population.

Canterbury Coastal's problems are of a much larger size. They have forecast a deficit of £4.175m for the financial year. The greatest budget pressures and greatest financial challenge are:-

- Placements⁵ – difficulties here affect other issues, such as discharge from hospital (Projected overspend £1.7m for 2004/5)
- Tertiary referrals. These are referrals from a hospital or a GP to a third party; usually a London specialist hospital. (£430,000 overspend for 2004/5) The PCT say that solving this will take time and needs the re-engineering of care pathways
- The new GMS contracts – there is higher local expenditure, including the out of hours, and the Quality and Outcomes framework. This is a substantial cost calculated at £212,000 overspent by the end of the financial year.

It must be noted that Canterbury's financial position at month 6 also shows £1m of costs impacting from year end measures at the end of financial year 2003/4.

⁴ SHA – Performance and Service improvement report for September 2004

⁵ Placement - the finding of suitable accommodation and treatment for patients with very specialised needs.

Placements are a huge and difficult area; there are insufficient places, particularly for mental health patients, and places can cost up to £250,000 per person per annum for very specialised care. (See section 9, Mental Health)

Tertiary referrals to London hospitals have become a cost pressure for all Kent PCTS. This is because foundation hospitals, like Guys and St. Thomas' now are able to charge on a Payments by Results or 'cost and volume' basis. Every extra case must be paid for and this has affected all the primary care trusts; the foundation hospitals have also become sharper and more sophisticated with billing for their activity. There is an East Kent re-patriation plan to work to bring treatment back to Kent but this is a long term task.

It is likely that without Strategic Health Authority support, Canterbury and Coastal PCT will end the year with a deficit and breach its statutory duty.

East Kent Coastal PCT is similarly predicting a deficit, of £1.6m. Their overspend to 30 September was £3.4m. Despite implementing £1.8m. of actions to bring in savings, they will be left with the remaining deficit of £1.6m. The savings are considered 'deliverable but challenging'. Their main overspendings are on placements (£1.3m), but also on prescribing (£1m) and the GMS contract (£562,000). It is clear their ability to pull back from this situation is very limited.

Shepway PCT is also forecasting a deficit of £700,000. Their half-yearly performance report says:-

'It is not considered that financial balance can now be achieved given the adverse movements on learning disability and older people's placements'

It is clear that financial risks have begun to swing round to PCTs as their roles have developed since the reconfiguration of the health service. The need to break even each year is in urgent need of review, and Primary Care Trusts now need to be able to plan their expenditure, like their income over a longer period.

6. South of West Kent

The South of West Kent health economy comprises:

One Acute Trust:	Maidstone & Tunbridge Wells NHS Hospitals Trust
Two Primary Care Trusts:	Maidstone Weald PCT South West Kent PCT

The West Kent Social Care and Partnership trust provides the area with mental health services.

To repay the deficit of £8.9m generated by the hospital trust in 2003/4 and to meet shortfalls in the 2004/5 Local Delivery Plan, the South of West Kent health economy has signed up to a joint financial recovery plan. This is extremely challenging – and is split in the following way:

Summary of Financial Recovery Plan

Organisation	Annual planned level £'000s	Forecast year end variance £'000s	Notes
Maidstone & Tunbridge Wells NHS Trust	8.577	0	£1.698 of schemes still required to balance
Maidstone Weald PCT	5.217	3.992	
SW Kent PCT	3.939	0	
Total	17.733	3.992	

The South of West Kent health economy has provided the following statement of their overall position as calculated at the end of September:

South of West Kent – overall budget monitoring position at 30/09/04

Health organisation	Projected overspend for financial year 2004/5 £'000s
Maidstone & Tunbridge Wells NHS Hospital Trust	500
Maidstone Weald PCT	3900
South West Kent PCT	300
Total	4700

However the position has deteriorated to over £5m by October. (Figure 3)

Thus it is likely they will finish the year with a deficit of between £4 and £5m overall. Where did this come from?

6.1 Maidstone and Tunbridge Wells NHS Hospitals Trust

In autumn 2003/4, the Maidstone and Tunbridge Wells NHS Hospitals Trust was already facing a deficit on the original ambitious plan to save £12m in one year. The 2003/4 annual report, attributes the difficulties in that year to a 'less than robust' financial recovery plan. There have been further personnel changes at senior level, and there is a newly appointed Director of Finance in post since only early November. Financial difficulties contributed towards Maidstone and Tunbridge Wells NHS Hospital Trust receiving no stars in the Department of Health rankings.

They have already been granted £6.6m support from the Strategic Health Authority which has to be repaid by March 2006. The financial recovery plan remains 'very challenging'. They expect to face greater financial pressure from the implementation of the new consultants' contract, but the extent of this as yet to be confirmed.

They are going to tackle their financial problems through the following strategies:-

The interim Finance Director has now been replaced by a permanent Finance and Information Director. The interim Director will stay at the trust to project manage the financial recovery plan, reduce the over spend down to £1m for the Hospital Trust and help the Primary Care Trusts meet their statutory duty to break even. A £1m deficit would be within the DoH's level of materiality for Hospital Trusts and be an acceptable result under the CHI star rating system.

The hospital trust is looking at a variety of strategies:

- They are looking at quick wins, such as selling unused land and buildings. They are now looking at disposing of properties worth £5m, including the old eye hospital in Maidstone, and other properties in Tunbridge Wells. Over the next six months they will move towards completing this. This strategy was to be adopted in 2003/4 when it was expected to recoup £2m from the sale of unused staff accommodation, but this did not come to fruition.
- They hope to get more income into the organisation, by doing private sector work.
- They are looking at the spending from drugs budgets on wards.
- Agency fees – there are now more stringent controls in place to minimise the use of agency staff. Temporary nurse staffing was split 35%/65% with 65% within the private sector agencies. Now agency fees are less and the figure is 80% of temporary staff placed with the Trusts' own internal bank and 20% with private sector agencies. The biggest gain from this has been the continuity of care, but agency fees of course are saved and the internal bank staff cost less as they do not carry agency overheads.

6.2. Maidstone Weald PCT

Maidstone Weald has also had a change of Finance Director since 2003/4.

They broke even at the end of 2003/4 only with £2.4m support from the Strategic Health Authority. Risks within the original budget became definite commitments. They contributed £2m towards the Maidstone and Tunbridge Wells NHS Hospitals recovery plan. They must pay back the £2.4m in 2004/5. Their main overspend is also for placements, and they hope to employ a placements manager as a joint post with South West Kent PCT.

This post would look at the appropriateness and cost effectiveness of placements, and review the continuing need for very expensive placements.

Realistically this is unlikely to make a difference in what remains of financial year 2004/5.

Their biggest area of overspend this year is on tertiary activity to London hospitals which is heading for an overspend of £3m, despite setting the budget at last year's outturn activity level. Although this is a problem for the whole of Kent & Medway, it is a particular issue for Maidstone Weald and they are conducting a detailed analysis of the activity data to understand why this is the case. They are also discussing with

Maidstone and Tunbridge Wells NHS Trust a system for using the referral management centre to monitor tertiary referrals.

6.3. South West Kent

South West Kent are predicting that they will meet their savings targets, including their contribution to the financial recovery plan, and still break even for the financial year. They have had the advantage of a stable management team, with only one change since 2001. They have appointed a project manager who co-ordinates financial reporting from all of South of West Kent, and the situation is responding accordingly in that they are confident of its accuracy. In the budget setting rounds, they took the lead role around the delivery of the Financial Recovery Plan.

South West Kent has traditionally received a high level of provision from out of Kent and London providers, not all specialists. For instance Bromley hospital is the nearest hospital for some of their residents. They are bringing work into the local health economy through a range of measures, but they are still struggling with a potential overspend on this budget of £3.5m. They are sharing the costs and benefits of the referral centre with Maidstone Weald. .

South of West Kent economy – the way forward.

The South of West Kent economy is beset by difficulties. However the Hospital trust should now benefit from a more stable management and there have been heartening successes in service delivery. Accident and Emergency access is now on target. From being in the bottom quartile, they are now the 5th best improved in the country. There remains the problem of the inflexibility of Primary Care Trusts' budgets when expected to initiate new developments, and support financial recovery plans while they do not have the ability to build up reserves. These are essential when faced with cash limited budgets and statutory duty to place patients in extremely expensive specialised care.

7. Dartford

The Dartford health economy comprises the Dartford and Gravesham NHS Trust – based at Darent Valley Hospital and its companion the Dartford, Gravesham and Swanley Primary Care Trust. Darent Valley is a Private Finance Initiative (PFI) hospital and has been receiving a special allowance towards these costs from the Department of Health, which is scheduled to cease. The hospital trust renegotiated the PFI agreement in 2003/4 to improve their financial position, but this gain can only be accrued over the life of the PFI agreement. Dartford and Gravesham NHS Trust gained three stars and has retained this rating in 2003/4, while finishing the financial year with a slight under spend.

By contrast, Dartford and Gravesham PCT finished the financial year with a £5.6m overspend, but gained one star. The reason for this overspend was higher than expected activity at both Darent Valley and London Hospitals. A financial recovery plan has been approved by the Strategic Health Authority

As a PCT, their first call on expenditure in 2004/5 was to repay the deficit. To do this they have been allowed £5.4m support from the SHA from 2004/5 which is to be repaid, and the overall debt will go down by £2m each year

:

Year	Amount
04/05	£5.4m
05/06	£3.4m
06/07	£1.1m – balance to be repaid by 31.3.2007.

It is in Dartford and Gravesham that the advantages of working within a united health economy can now begin to be most clearly seen. The two Finance Directors work closely together and see the problem as one to be solved by the whole health economy. Conversely, this has meant more budget difficulties for the Hospital Trust as they have 5% cash reduction cut from their income because of the PCT's recovery plan and also the potential loss of income from PFI support.

The two organisations have set up a risk sharing agreement, worth up to £2.6m, and the NHS trust is working with the PCT to manage demand downwards to the contracted level. Darent Valley hospital is a 'victim of its own success.' The three stars give people confidence, and the hospital is effective – 98% get seen in the Accident and Emergency Department within four hours, although demand is up 13-15%. This has influenced the patients psychologically, so they know that with a minor ailment they can be seen in hospital. To combat this extra demand is to divert these patients so they get seen elsewhere. Patients need access to health care, not necessarily Accident and Emergency care at a hospital. The Primary Care Trust is working on moving the out of hours' service for GPs to the hospital, within the Accident and Emergency Department. Thus a more appropriate form of care can be provided for these 'ad hoc' patients.

The Dartford health organisations are working closely together, but they appreciate the difficulties that the system brings. They feel it is a problem to match strategies, and targets across the county – a three star hospital working efficiently has brought other problems for the primary care trust.

8. Medway/Swale

The Medway/Swale health economy comprises the Medway NHS Hospital Trust, Medway Primary Care Trust and Swale Primary Care Trust.

Medway NHS Trust ended the financial year 2003/4 £2m in surplus. This was achieved through a technical adjustment with the Department of Health.

As part of the government changes to resource accounting, some trusts could benefit by having old debt reimbursed. If deficits were made good after 2001, older debt could be resolved. The Department of Health granted the money to them, and

they started this financial year in credit. Medway and Swale PCTs also ended 2003/4 with slight surpluses.

The Trust has the benefit of a settled management structure, with most senior posts being constant for four years. They are working through a financial recovery plan because their projected income was not great enough to cover their anticipated costs in 04/05. The Financial Recovery plan has been developed across the health economy and totals £7.6m. The schemes vary from those impacting on the acute trust to investments in primary care to reduce the need for admission. The Trust is overspent at the end of September by £1.5m and is seeking to achieve Department of Health targets to reduce waiting lists.

Swale and Medway PCTs are on target to contribute towards the financial recovery plan and still meet their statutory break even duty.

9. Mental Health

The two mental health trusts are the East Kent NHS and Social Care Partnership Trust and the West Kent NHS and Social Care Trust.

The position of the two mental health trusts within the health economies differs. East Kent is totally co-terminus with the East Kent health economy. They are a small trust, (Turnover in 2003/4 £51m) and have lost over the years some of their responsibilities since reconfiguration – for example the responsibility for learning disability services went to Ashford PCT in 2003/4.

West Kent provides mental health services for the other three health economies.

There is no doubt that the mental health services have been unable to invest in future services because of the need to make savings within their health economies. The level of these savings required across Kent and Medway varies. Cash Releasing Efficiency Savings or CRES are required to be saved each year from the budgets of all health organisations. The standard is 2% - with 1% savings and 1% designed to be re-invested in developments. Over the last two years in Kent and Medway some of these savings have been needed to be used to fund gaps in funding and to ameliorate deficits. The lack of investment has meant ward closures and the mental health trusts are now reviewing their provision of whether in-patient beds are actually required. Consultations are continuing in all health economies to review the number of mental health in-patient beds with a view to improving the service for patients.

At the same time there are initiatives beginning to increase the number of beds at the Trevor Gibbens Unit in Maidstone (a medium secure forensic unit) and set up a further medium secure unit in Dartford for mental health patients with learning difficulties. This will enable places to be purchased at a less expensive price than from the independent sector. The committee found that the increasingly expensive prices of these placements, which often occur unexpectedly, make financial planning for Primary Care Trusts for this budget almost impossible. There is also a review of mental health commissioning underway looking to ensure equity and consistency across the four local health economies.

In South of West Kent, efficiency savings have been built into the financial recovery plan. So far, no final agreement has been made with West Kent NHS and Social Care Trust about the level of these savings – and in fact West Kent has three different levels of CRES savings to make over the three different health economies it serves. This lack of clarity causes difficulty for all the South of West Kent health organisations in financial planning. Negotiations continue and it is essential that some solution can be found before the end of the financial year. Perhaps the Department of Health could offer national guidance where a Mental Health Trust provides for more than one health economy.

10. Up-date at 31 January 2005

To the end of December 2004, the individual health organisations' financial position worsened. In the Strategic Health Authority's latest Performance report⁶ collecting together financial results to 31 December 2004, the aggregate deficit totalled £16.8m. However, the Strategic Health Authority had not changed its formal projection to the Department of Health of a year end breakeven position.

Although because of the timing of meetings NHS OSC has not had sight of all the individual health organisation's finance reports to 31 December 2004, one of the organisations where detailed figures are available and the position has worsened since September is Canterbury and Coastal PCT. They are now predicting a year-end deficit of £4.97m, and their external auditors have contacted the Board members.⁷ This is a statutory duty to assess the recovery plan for robustness. The auditors will continue to review the forecasts and the recovery arrangements that the PCT proposes.

Other PCTs which are considered likely to breach their statutory duty to break even are East Kent Coastal and Maidstone Weald. For all these PCTs, the main areas of overspend remain:

- Increased costs of placements, particularly for Mental Health clients
- Tertiary referrals – particularly to London providers
- Costs associated with the implementation of the new General Medical Services contracts

Pressures and Risks

As well as the reported figures there remain further pressures and risks.

The pressures remain on tertiary referrals, which total £9.7m for Kent and Medway PCTs. The other main pressures are placements (totalling £5.6m) and payments due under the Quality and Outcomes Framework of the new GMS⁸ contract (£4.3m).

Total financial pressures facing Kent and Medway are estimated at £23.2m in 2004/5.

⁶ Kent & Medway SHA Board meeting 26 Jan 2005

⁷ Canterbury & Coastal PCT Board papers 27 Jan 2005

⁸ General Medical Services

As well as known pressures, there are further risks – which total £10.9m. These are:-

- Difficulty in meeting the planned Cash Releasing efficiency savings (CRES) and agreed Financial recovery plans
- The full revenue implications of the new GMS contract
- Change in valuations by the District Valuer not yet completed.

Strategic Health Authority's actions.

To be able to continue to predict a break-even position to the Department of Health, the Strategic Health Authority is working through its performance management framework to help health organisations to solve their financial difficulties. They are doing this in the following ways:

- Identifying and implementing contingency plans and additional savings to cover shortfalls in recovery plans or to deal with cost pressures as they become clearer
- Reviewing all budgets to ensure that unspent budgets can support the overall financial position of the Kent and Medway health economy – this could provide £5m of flexibility.
- Leading discussions within the economy to identify the financial impact of the Agenda for Change implementation in 2004/5. This will ensure that all the health organisations use the same methodology to calculate the effect of the 2004/5 costs of Agenda for Change to ensure consistency and completeness. The effective date for changes in NHS pay scales is 1 October 2004. However the assimilation of staff can be locally negotiated and take place no later than 30 September 2005⁹. 2005/6 will be the first full year cost of the pay restructuring caused by Agenda for Change.
- Reductions in the cost of four generic drugs will reduce the total cost of drugs in 2004/5 financial year, and this impact needs to be understood and factored into financial projections. The Strategic Health Authority is also challenging the calculations used by health organisations and the Prescription Pricing Authority to calculate their prescription drugs' costs for the year.

10. Conclusions – future outlook

Since the NHS Overview and Scrutiny committee reviewed the financing of the health economy in 2003, there have been greatly improved information flows between the health organisations and the committee, which has improved understanding. The structure of the new health organisations is now maturing and those that have retained management expertise since 2001 are now beginning to see the benefits of this stability.

The Department of Health has said their top three national priorities for 2004/05 are Accident and Emergency services, patients who have been waiting for surgery for six months and the introduction of the booking and choice programme (Choose and Book). They require these to be delivered through a sound financial framework that delivers a balanced position for every NHS organisation. The Strategic Health Authority has made great strides over the last financial year in improving the financial

⁹ Agenda for Change final agreement – Department of Health

results of the four health economies. However there are still urgent problems to be solved, most obviously the South of West Kent health economy. It is clear that the level of

Maidstone Weald PCT will not now achieve savings within the current financial recovery plan and they will need continuing support in 2004/5. In 2005/6 the South of West Kent economy will need to build on the good practice started in South West Kent PCT and pull together to solve their financial and service delivery problems. The issues of CRES savings and mental health trusts will need to be addressed if realistic financial recovery plans are to be drawn up for 2005/6.

The problem of tertiary referrals affects all health economies. The reasons for this will need time-consuming analysis by both commissioners and providers, and will not be solved by the end of this financial year. NHS Overview and Scrutiny are interested in the outcomes of this work and would appreciate regular progress reports at their meetings. There will be further challenges with the extension of Payments by Results and this will mean the Primary Care Trusts are even more vulnerable to financial problems as activity increases in line with waiting time targets.

The cost of placements continues to be an increasing burden on Primary Care Trusts. New plans for setting up secure units in Kent are to be welcomed and should bring better value for scarce resources. The committee expressed great concern at the high cost of placements in the private sector.

The issue of prescribing budgets has been addressed and strategies put into place last financial year have improved this, mean that overspending on prescribing is estimated county wide as being 0.5% or £1m. Primary Care Trusts have adopted innovative strategies to control prescribing budgets. East Kent Coastal PCT made savings of 1% on this budget in 2003/4 and expects to make further savings in 2004/5 and should be congratulated on this.

The Kent and Medway health economy will once again need management and, if available, financial support from the Strategic Health Authority, which has been congratulated on its performance by the Department of Health for laying a more stable financial foundation for the local NHS. Setting up the four health economies as strong collaborative entities is its most striking achievement. Despite the position worsening in the last two months, the Strategic Health Authority still forecasts a break even position for the whole of the Kent and Medway health economy for financial year 2004/5; but this will not be achieved without great effort and is not without risks.

APPENDIX – The review process.

Hearing 1 -14 October 2004

Overview presented by Bob Alexander, Director of Finance and Information, Kent and Medway Strategic Health Authority

Darren Grayson, Chief Executive and Tim Taylor, Director of Finance, East Kent Coastal Primary Care Teaching Trust

Jonathan Bates, Finance Director, Ashford Primary Care Trust.

Ann Sutton, Chief Executive and Bill Jones, Director of Finance, Shepway Primary Care Trust

Hearing 2 - 12 November 2004

Geoff Read, Finance Director, Dartford Gravesham and Swanley Primary Care Trust.

Brian Shipley, Director of Finance, Dartford and Gravesham NHS Trust

David Parr, Chief Executive, and Brian Allpress, Director of Finance, East Kent NHS and Social Care Partnership Trust.

David Astley, Chief Executive and Philip Astell, Deputy Director of Finance, East Kent Hospital Trust.

Wilf Williams, Chief Executive and Rob Whiteford, Director of Finance, Canterbury and Coastal Primary Care Trust

Jon Wilkes, Chief Executive, West Kent Mental Health Trust.

Hearing 3 – 19 November 2004

David Price, Finance Director, Maidstone and Weald Primary Care Trust

Jim Hope and Winston Weir, Finance Directors, Maidstone and Tunbridge Wells NHS Trust

Steve Ford, Chief Executive and Reg Middleton, Finance Director, South West Kent Primary Care Trust

Jeremy Moon, Medway NHS Trust

**Financing the Health Economy – Phase 2 Recommendations:
(References to paragraphs in original volume in brackets – this is available on request)**

For the Strategic Health Authority and All Health Organisations in Kent

All parts of the health economy should recognise the changes in the financial regime, which now require them to: -

1. Continue to take seriously the fact that they must balance their budgets, live within their means and not overspend. (6.5.7)
2. Monitor the realism of savings plans and their implementation whilst maintaining high quality care and access targets. (6.5.7.)

3. Maintain the level of capital investment that is sufficient to maintain the value and quality of the estate and equipment. (6.5.7.)

4. Keep a tight control on budget management in view of the high level of savings targets set in 2003/4. Savings at this level have never previously been achieved. (5.4.3.)

For the Strategic Health Authority

5. Stabilise the whole of the Kent and Medway health economy, using the flexible terms of the £17m loan from the NHS bank. (5.4.1.)

6. To provide consistent and transparent information on Financial Strategies and in the monitoring of outcomes within the Health Economy in Kent and Medway.

7. The Strategic Health Authority to offer help as required in understanding financial information from other parts of the health economy in Kent and to provide the information in a mutually agreed format to the NHS Overview and Scrutiny Committee on a regular basis.

8. Promote the revision of the market forces factor (the cost of providing services between one area to another) so that it properly reflects the costs of providing services in Kent and Medway. (5.3.8.)

For the Strategic Health Authority and Primary Care Trusts

9. Continue to lobby, with Kent County Council, the Department of Health regarding favourable transitional support for Ashford and the Thames Gateway, as the resource allocation formula will only reflect population change retrospectively. (10.3)

10. Continue to develop the options for a Business case for the establishment of a Cardiac Centre in Kent. (5.3.8)

For the Primary Care Trusts

11. Devolve prescribing budgets to GP Practices to match accountability with responsibility for prescribing. (5.3.4)

12. Work with other Primary Care Trusts to capitalise the efficiencies that can be achieved by making best use of scarce resources, while still retaining a local focus. (10.6)

13. Commission services for as many patients as possible within Kent and Medway who are currently being referred to London hospitals. (5.3.8)

For NHS Hospital Trusts

14. For Trusts with above average reference costs: -

Reduce local costs to the national average while maintaining the highest standards of quality and safety thus using the national tariff as a lever for eliminating unnecessary variation in levels of cost and quality and boost the use of local health facilities when patient choice is extended in December 2005. (9.3)

For the Mental Health Trusts

15. The two Mental Health Trusts should work much closer together across Kent and Medway, for the benefit of all the patients in Kent, to make management more cost effective and make best use of scarce resources. (5.3.6)

For Primary Care, Mental Health, Social Services and Ambulance Trusts

16. Encourage initiatives in partnership innovations where they provide a better service for patients and expand those services which give best value for money. (11.6)

For the NHS Overview and Scrutiny Committee

17. Actively support the formulation of options for a Business case for the Kent Cardiac Centre. (5.3.8)

18. The NHS Overview and Scrutiny Committee Manager to obtain the Strategic Health Authority and all Trusts Board meeting papers.

19. To request the Directors of the Strategic Health Authority to continue to attend open meetings of the NHS Overview and Scrutiny Committee on a regular basis in order to answer questions on the financial position of all parts of the health economy in Kent and Medway. (5.4.4)