NHS
Medway
NHS Foundation Trust

# Financial update

21 September 2018

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Best of people

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Brilliant

## Executive Summary - Context

The health and social care partners in Medway Health economy are developing a plan for achieving the constitutional performance targets and to return Medway Health System to financial balance within 3 years.

The 2018-19 plan considers the interventions planned to deliver improvements to operational performance trajectories in line with the constitutional targets. It further considers the financial improvements necessary to meet the overall control total for the system.

The medium term plan section looks in more detail at how changes across the system can help bring the organisations back to financial sustainability.

The key delivery tools are covered in detail throughout the system plan but can be summarised into the following headings:

1. Local Care
2. Urgent Care Pathway
3. GP Improved Access
4. Transforming Outpatients
5. Efficient working: Right Place, Right time (GIRFT/Right Care/Model hospital)
6. Consolidation of the provider market

# Executive Summary – The scale of the financial challenge

## In order to return to balance, Medway and Swale will need to transform the way it works.

Based on STP planning assumptions, if no intervening action were taken, the System's deficit was forecast to grow to more than £108 million by 2021.

**Kent and Medway STP - Strategic Financial Framework**

| Summary | | FY_1718 | FY_1819 | FY_1920 | FY_2021 |
|---|---|---|---|---|---|
| | Income | 365,195 | 374,648 | 384,569 | 401,285 |
| **NHS MEDWAY CCG** | Expenditure | 366,864 | 378,664 | 390,791 | 406,198 |
| | **Balance** | **(1,669)** | **(4,016)** | **(6,222)** | **(4,913)** |
| | Income | 144,433 | 148,319 | 152,409 | 159,138 |
| **NHS SWALE CCG** | Expenditure | 155,957 | 161,593 | 167,407 | 174,630 |
| | **Balance** | **(11,524)** | **(13,274)** | **(14,998)** | **(15,492)** |
| | Income | 286,912 | 296,499 | 306,410 | 319,160 |
| **MEDWAY NHS FOUNDATION TRUST** | Expenditure | 349,281 | 368,137 | 386,217 | 407,153 |
| | **Balance** | **(62,369)** | **(71,639)** | **(79,807)** | **(87,992)** |
| CCG Surplus/(Deficit) | Balance | (13,193) | (17,290) | (21,220) | (20,405) |
| Provider Surplus/(Deficit) | | (62,369) | (71,639) | (79,807) | (87,992) |
| **System partners** | | **(75,562)** | **(88,929)** | **(101,027)** | **(108,397)** |

Source: Kent and Medway STP modelling StFF Nov 2017

# Executive Summary – Key Risks

## The principal risks to operational and financial recovery across the system are increasing demand, inter-organisational priorities, and insufficient staff engagement and ownership

The recovery plan requires each system partner to deliver their elements in full.

The proposed contract assumes a national level of activity growth. The assumptions within the contract are that there will be no income generation schemes in 2018/19 and where there are changes planned they will need to formally agreed through the contract process. Equally commissioners will not be assuming fines/penalties/challenges in the plan but will calculate the values for discussion and handling strategies.

In order to achieve the ED waiting times target, there has to be a reduction in presentations that can be managed elsewhere in the system.

Cost Improvements and Quality, Innovation, Productivity and Prevention Plans are significant when considered across the system, particularly in 2018/19.

| Annual CIP/QIPP | 2018/19 £'000 | 2019/20 £'000 | 2020/21 £'000 | TOTAL by Org £'000 |
|---|---|---|---|---|
| MFT CIP | 21,021 | 14,000 | 14,000 | 49,021 |
| MCCG QIPP | 10,138 | 10,442 | 10,755 | 31,336 |
| SCCG QIPP | 5,617 | 5,786 | 5,959 | 17,362 |
| Total CIP/QIPP by year | 36,776 | 30,228 | 30,714 | 97,718 |

Given the scale of change required, the plan cannot be delivered without clinical ownership and leadership from primary care through secondary and tertiary as well as social care. Engagement with the whole workforce is essential and the system is using the governance structure that sits beneath the Medway Transformation Board to facilitate this.

Training, recruitment and retention has to be a key focus to enable delivery of the plan. The CCGs are working with GPs to deliver improved access and to ensure the future workforce is developed in line with future need. Similarly, the Trust has a number of clinical vacancies and is aiming to change the skill mix for delivery of the evolving pathways and implement novel solutions to the recruitment dilemma.

# History – 2012 to 2018 – MFT Financial History

## Detailed information shows that temporary staffing costs peaked in 2015/16 and have begun to reduce

A detailed breakdown of income and costs over the period shows the following:

- Both clinical and non-clinical income increased over the period.
- This increase was outweighed by increasing costs, particularly increasing pay costs.
- Temporary staffing costs contributed to increasing pay costs, reaching £41.5 million (21.4% of pay costs) in 2016, before falling to £37.9 million (18.0% of pay costs) in 2017.
- Pay consistently makes up around 2/3 of expenditure.

| Financial Position Excluding STF | FY18A | FY17A | FY16A | FY15A | FY14A | FY13A | FY12A |
|---|---|---|---|---|---|---|---|
| | £m | £m | £m | £m | £m | £m | £m |
| Total revenue from patient care activities | 242.0 | 251.6 | 231.8 | 223.2 | 220.6 | 212.1 | 202.9 |
| Other operating income | 24.7 | 25.3 | 23.0 | 32.2 | 32.1 | 25.3 | 24.5 |
| **Total income** | **266.7** | **276.9** | **254.8** | **255.4** | **252.7** | **237.4** | **227.4** |
| Pay costs | -210.9 | -213.1 | -197.6 | -182.8 | -166.4 | -151.9 | -148.2 |
| Non pay costs | -109.6 | -104.9 | -95.5 | -89.8 | -83.6 | -74.0 | -66.2 |
| **Total operating costs** | **-320.5** | **-318.0** | **-293.1** | **-272.6** | **-250.0** | **-225.9** | **-214.4** |
| EBITDA | -53.8 | -41.1 | -38.3 | -17.2 | 2.7 | 11.5 | 13.0 |
| Total non-operating expenses | -12.3 | -12.5 | -14.2 | -13.3 | -12.9 | -13.3 | -13.6 |
| **Net surplus/(deficit) before revaluation** | **-66.1** | **-53.6** | **-52.5** | **-30.5** | **-10.2** | **-1.8** | **-0.6** |
| Revaluations/ Impairment adjustment | 10.5 | 3.4 | -11.6 | 13.6 | 2.4 | -0.1 | 1.7 |
| **Surplus/(deficit) after impairments** | **-55.6** | **-50.2** | **-64.1** | **-16.9** | **-7.8** | **-1.9** | **1.1** |
| | | | | | | | |
| **Key ratios** | | | | | | | |
| EBITDA as a % of total income | -20.17% | -14.84% | -15.03% | -6.73% | 1.07% | 4.84% | 5.72% |
| Net deficit as a % of total income | -24.78% | -19.36% | -20.60% | -11.94% | -4.04% | -0.76% | -0.26% |
| Pay as % of total expenses | 65.80% | 67.01% | 67.42% | 67.06% | 66.56% | 67.24% | 69.12% |
| Pay as % of total income | 79.08% | 76.96% | 77.55% | 71.57% | 65.85% | 63.98% | 65.17% |
| Substantive (including Bank) | 195.9 | 172.6 | 163 | 158.9 | 142.6 | 138.1 | 135.6 |
| Agency | 17.8 | 40.5 | 34.6 | 23.9 | 23.8 | 13.8 | 12.6 |
| **Total pay costs** | **213.7** | **213.1** | **197.6** | **182.8** | **166.4** | **151.9** | **148.2** |
| % agency of total | 8.33% | 19.01% | 17.51% | 13.07% | 14.30% | 9.08% | 8.50% |

Source: Medway NHS Foundation Trust Annual Reports, 2012-2018

## History – 2012-2018 – Drivers of the Deficit

Resolving the drivers of the deficit is essential if Medway and Swale are to returning to financial balance.

Each partner organisation has differing drivers, and it is essential that activity is counted and coded accurately to ensure the full extent of the service is understood, and what service change is therefore required to resolve the financial pressures. The solution is not in moving the deficit between organisations, but by understanding where the deficit is truly being driven, the system has the best chance of managing the issues.

Analysis has shown that there are 3 primary components to that deficit:

1. Efficiency and Productivity – Reference Costs for 2016/17 indicate £23m of cost could be reduced in acute care by reviewing staff skill mix, average length of stay and overall productivity.
2. Services Portfolio – It is recognised that Payment by Results is not aligned to service costs, and there are a number of services which are therefore not fully compensated via national tariff. MFT estimates the national average cost of the services delivered is £20m less than the PbR value attributable.
3. Coding and Counting – Historically MFT has not been good at capturing activity and managing its contracts with commissioners and therefore there are a number of contractual gaps and adjustments which mean the Trust is not paid for all of the work it undertakes.

The MFT contract is the prime source of financial risk to Swale CCG, with both activity growth and lack of QIPP delivery more than contributing more than the reported deficit of £3m for 2017/18.

That risk continues in 2018/19 particularly with the uncertainty around the contract type. This is already contributing £2m unmitigated risk to the CCG, with further risk still to be determined.

# 2018/19 plan – Operational Delivery

The system Transformation Board is focused on the implementation of:

1. Local Care
2. Urgent Care Pathway
3. GP Improved Access
4. Transforming Outpatients
5. GIRFT/Right Care/Model hospital – Right place, Right time
6. Consolidation of the Provider market

### Local Care

The Medway Model for local care is in line with STP local care principles. Programme board has been established, commissioning and supporting teams are in place, and patients have been identified within each local care team.

### GP Improved Access

Minor illness clinics introduced in 2017/18 have provided an additional 30k appointments, this model will be used to deliver Improved Access of an additional 47k appointments from healthy living centres from October.

### GIRFT/Right Care/Model hospital

Analysis at specialty level to identify model hospital efficiencies, as well as utilising GIRFT to reduce unwarranted variation. Right Care analysis at specialty level is informing pathway changes for patients to improve efficiency of access and reduce cost.

### Urgent Care Pathway

Co-location of services into an urgent treatment centre on the MFT site, including primary care walk-in, mental health assessments, care navigation, social care and some community services eg DVT.

### Transforming Outpatients

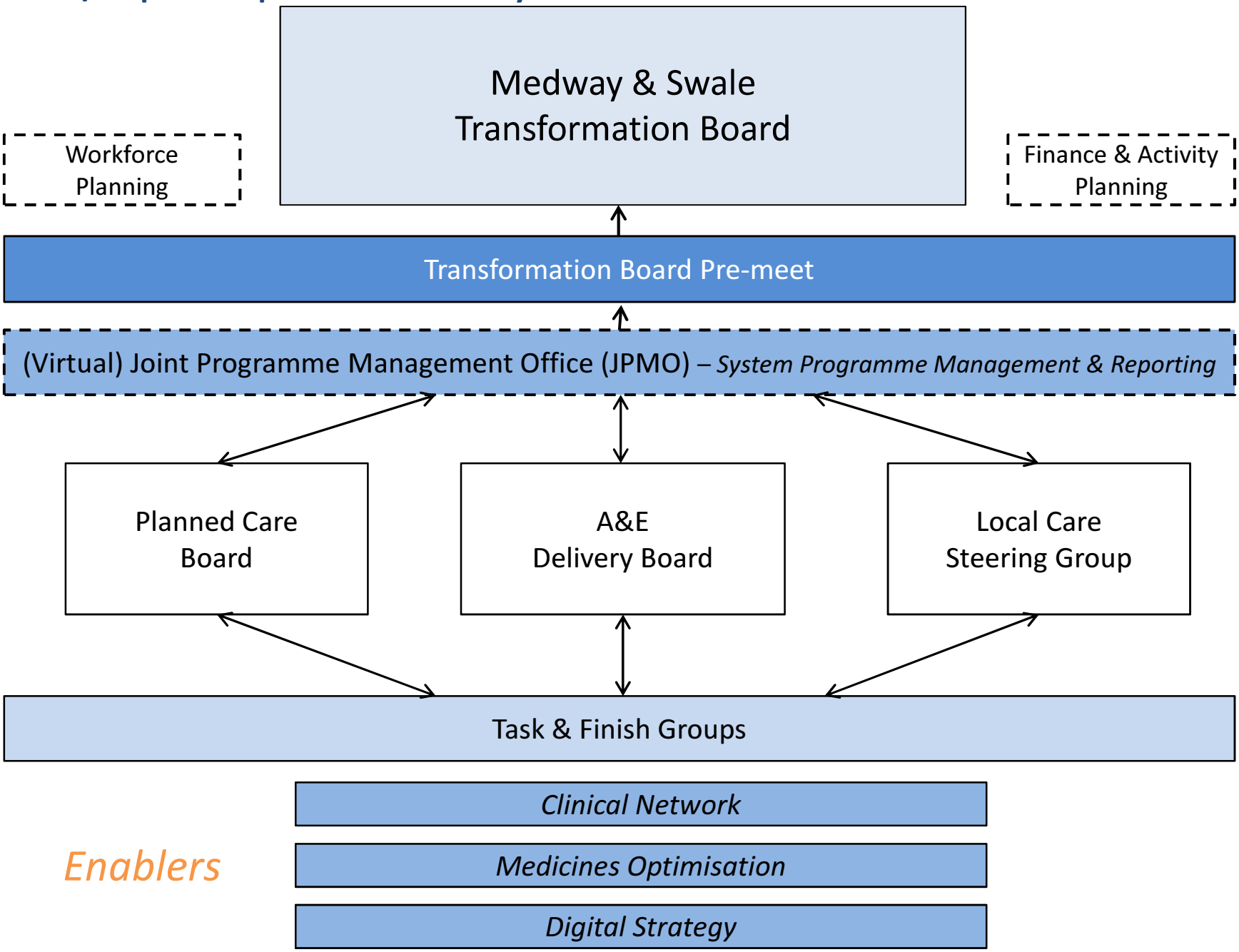
Introduction of eReferral, advice and guidance, referral criteria, clinical peer review, self care, revised model for long term condition follow up care to be built into local care delivery, and hot clinics for new referrals.

### Consolidation of the Provider market

Secondary effect of eg local care is to enable reclassification of resources at the acute site and facilitate repatriation of outsourced activity, and providing care closer to home for the non-specialist acute activity currently provided out of area.

Source:

## 2018/19 plan – Operational Delivery – Governance Structure



# Return to Balance – System Wide Solutions

## System Wide Solutions – IT Infrastructure

Medway and Swale have not kept pace with digital technology and this is hampering improvements to patient care pathways and the quality of care delivered. It is essential that the system work cohesively to adopt new ways of working that will release resources and improve productivity. The STP is co-ordinating a Kent Care Record, but in order to be part of the solution, it is necessary to have electronic records that can be incorporated. Currently much of the Medway and Swale patient records are paper based and this will need to change over the next 2-3 years. The key projects in place are as follows:

- Completion of the implementation of eReferrals – including defined referral protocols, Implementation of the Advice and Guidance Access – reduction in outpatient referrals
- Completion of the roll out of Order Comms for Radiology and Pathology – this will reduce duplicate tests as well as digitising the system
- Implementation of ePrescribing
- MFT to introduce electronic document management system with clinical notes – ultimately aiming for full electronic patient records
- Scan 4 Safety National Initiative

## System Wide Solutions – Estate Infrastructure

One of the key challenges facing Medway and Swale is the requirement to invest in the estate to support the Local Care initiative, provide appropriate community based services, and repurpose elements of the acute site to increase capacity and improve/upgrade facilities for those services requiring secondary care - for example:

- Completion of the major capital project to expand the Emergency Department at MFT
- Complete review of all services to identify the optimum setting – community or acute - to inform the system estate strategy, including office accommodation for corporate support functions.
- Wave 3 capital funding of £15m secured for 2 new healthy living centres – anticipated to come online April 2020
- Wave 3 capital funding of £1m secured for development of a new Urgent Care Front Door Model – anticipated to come online March 19
- Rationalisation of the MFT site to co-locate services, provide scale for the those services which require an acute setting and free up aged accommodation which has high backlog maintenance attached as well as being inefficient to run.

Source: Outsourcing Data provided by commissioners . Savings opportunities from STP modelling. MFT outsourcing from SLAM

## Next Steps – Delivery Plan

This Gantt Chart shows the process by which each component of system recovery will be delivered