

HEALTH AND CARE OVERVIEW AND SCRUTINY BRIEFING ON GLOUCESTERSHIRE HOSPITALS FINANCIAL POSITION

1. Background

- 1.1 In September 2016 Gloucestershire Hospitals NHS Foundation Trust announced a significant and unexpected deterioration in its reported financial position. This announcement was preceded by an independent high level review of the Trust's financial position and financial reporting arrangements, commissioned by the Trust Board as a consequence of their growing concerns about the Trust's cash position and the associated operational impacts.
- 1.2 At the time of the announcement, the deficit to the end of August, was reported to be £11m (year to date) and at that time, no forecast for the year end was presented pending further work to understand the position in more detail. It is clear from subsequent reporting of the Trust's finances that many commentators misunderstood this to be the year end forecast.
- 1.3 Work to confirm the Trust's underlying position continues but currently the year-end forecast is predicted to be in the order of £24m. This forecast is based upon no further cost improvements beyond those currently planned being achieved in year and assumes there is no further deterioration in the underlying rate of overspending or income generation. This represents a £42m adverse variance from the Trust's original Annual Plan, which predicted a surplus of £18m (including £13m of national non-recurrent Sustainability and Transformation Funding) i.e. an operating surplus for the year of £5m without national support.
- 1.4 .Although a rapid and, by necessity, a high level review its primary conclusions were that the reasons for the Trust's cash decline were an underlying loss of financial control and a failure to fully deliver cost improvement plans, which had been masked in part by changing key accounting assumptions, so had not been apparent to the Board. The review also found that the Trust had spent significantly more money developing and improving its equipment and buildings, than it had cash available which had further eroded the Trust's reserves. Finally, the review concluded that a key contributory factor to the failure of the Board to identify this deteriorating financial position was a deficiency in a substantial number of aspects of the Trust's financial reports which they considered to be "no longer fit for purpose" given the now complex and challenging nature of NHS finance and evidence that there had been associated failings of systems of financial governance.
- 1.5 As a result of the very serious nature of these findings the Board decided to commission an independent review of the circumstances that led to the sudden financial deterioration. It has subsequently been agreed that the Trust's regulator NHS Improvement (NHSI) will jointly commission the review to avoid the necessity for a second and separate regulatory investigation. The Terms of Reference for the review have been made publically available and are included at Appendix 1. The review commenced on the 1st November and the findings are expected in mid-January 2017. The Board has agreed to share the findings and recommendations of the review publically and is due to present the findings to the HCOSC on the 30th January 2017 following their consideration by the Board on the 27th January 2017..
- 1.6 Finally, as a consequence of the position described above NHSI have concluded that it has reasonable grounds to believe the Trust is in breach of its provider licence and has taken regulatory action. This has culminated in the Trust being placed in Financial Special Measures (FSM) under the recently issued framework *Strengthening Financial Performance & Accountability in 2016/17*, published by NHSI and NHS England (NHSE) in July of this year. Gloucestershire Hospitals is one of three Trusts which was put into FSM last month; there are presently five Trusts in

England already under the FSM regime. This is an inevitable consequence arising from the scale of adverse variance from the Trust's plan and the acknowledged failings in financial governance and Board oversight.

1.7 Whilst this regulatory action signals the seriousness of the Trust's position it also affords the Trust access to specialist skills and additional capacity to ensure the Trust returns to financial balance as soon as possible, and most importantly, without detriment to the safety and quality of the services we provide.

1.8 Further information is awaited in respect of the precise nature of the measures that will be put in place. In the meantime the executive team continues to develop its financial recovery strategy and delivery plans, whilst taking all immediate steps open to it, to reduce the deficit in year and ensure a more positive monthly "run-rate" going into 2017/18.

2. Strengthening Financial Governance

2.1 The Board has publically acknowledged that one of the contributory factors to the governance failings was a paucity of financial skills and expertise amongst the non-executive directors on the Board in light of the increasing complexity and challenge of NHS finance in recent years. Of note, is the assurance given to the Board through an externally commissioned review of the Board's governance arrangements in 2015, which did not raise this as an area of concern. To facilitate a strengthening of financial acumen at the Board three non-executive directors (NEDs) have stepped down and recruitment is underway for new NEDs with the skills and experience required for the challenges ahead. A suitably qualified and experienced interim NED has already been appointed to the Board and the new Chair, also with significant financial experience, is working with NHSI to identify a further interim to take up the role of Audit Chair, pending substantive appointments being made later this year.

2.2 The Director of Finance resigned her post in September 2016 and an Interim Director of Finance has been appointed to support the Trust's financial turnaround.

2.3 In addition, the Board has undertaken a review of its Board sub-committees and made changes to both the Terms of Reference of these committees (including membership) and their scope. The former Finance & Performance Committee is now responsible for finance, and performance is assured through a newly established Quality & Performance Committee. Importantly, the financial reporting to both the Public Board and Finance Committee has been considerably strengthened and examples of the new format report can be accessed through the Board website

2.4 An important element of the previously mentioned financial governance review will be to advise the Board (and its regulator) on the robustness of current and proposed governance arrangements and the Board is committed to acting upon the findings and any associated recommendations.

3. Financial Recovery

3.1 The challenge now ahead of the Trust is to effect a sustainable financial turnaround whilst ensuring that services remain safe and of appropriate quality. The Trust will be inspected by the Care Quality Commission in January 2017 and this affords the Trust an opportunity to mobilise a single "call to action" reflecting the platform upon which we intend to build our recovery. This is the firm belief that *high quality care and good financial management go hand in hand* – there is a strong correlation between those Trusts with outstanding quality ratings and those Trusts with the most positive financial positions.

3.2 There will be two phases to the Trust's financial recovery. The first phase is a period of accelerated financial turnaround to normalise the scale of the Trust's deficit in relation to other financially challenged organisations and this will be the period from now to the end of the financial year in March 2017; the second phase will be the

journey to a sustainable financial plan which will reflect the two year national planning cycle from April 2017 to March 2019.

- 3.3 The first phase of financial recovery is underway and the Trust has secured the services of external consultants, KPMG, to provide skills and capacity in this area for the next two to three months whilst the Trust builds its own internal resources. The focus of this external support will be both cost reduction in year and with a view to reducing the monthly rate of overspend as we go into 2017/18 and also supporting the development of skills and capability (in financial recovery) within our existing staff. It will also help the senior leadership team to establish robust service and management architecture to ensure on-going delivery of cost improvement activities, once KPMG has moved on.
- 3.4 The Trust's developing approach to turnaround and recovery is located with a seven strand framework and the key elements of this are set out below
- Income recovery
 - Controls
 - Elimination of waste
 - Transactional change - focussing on efficiency "*Doing Things Better*"
 - Transformation change – focus on doing things differently "*Doing Better Things*"
 - 10% Staff Challenge – 10% more for the same, or the same for 10% less
 - TrakCare Benefits Realisation – TrakCare is our new clinical information system and electronic patient record platform
- 3.4 The Trust is required to submit a recovery plan to its regulator in advance of its first Progress Review Meeting (PRM) and this will be considered by the Trust Board at its November meeting. The first PRM will take place on the 1st December 2016 and involve key members of the Trust Board.
- 3.5 As described throughout, it is imperative that any proposal to reduce costs is robustly assessed for its impact on service quality and patient safety and where consequences of any cost reduction proposal are considered to have the potential for a deleterious impact on quality, and notably safety, these will be subject to enhanced scrutiny and will not proceed if any apparent risks cannot be eliminated or sufficiently mitigated.

4.0 Conclusion and Next Steps

- 4.1 In conclusion, the Trust has commenced the journey of financial turnaround to ensure it re-establishes a sustainable financial footing in as timely a way as possible. During this time, the Board is fully committed to retaining its focus on quality of care, strong operational performance and the wellbeing of its staff.

The Board recognises that there is much learning for the organisation, and wider systems of assurance and regulation, and is committed to sharing and acting upon the learning from the financial governance review and presenting this learning with the HCOSC early next year.

Deborah Lee
Chief Executive Officer

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