NHS
University Hospitals of North Midlands
NHS Trust

Drivers of the Deficit Refresh Report – Autumn 2018

Trust Executive Summary

Key findings (1 of 2)

The analysis performed in the DoD (Drivers of Deficit) report will be used to inform the development of the three year Financial Recovery Plan for the Trust. The analysis has identified that of the Trust's £104.9m deficit £57.9m is Operational, £13.2m Strategic and £28.3m structural.

Local Context: In 2014, Stafford Hospital was integrated into University Hospital North Staffordshire NHS Trust to create UHNM as a result of the dissolution of Mid Staffordshire NHS Foundation Trust. To facilitate the integration, transitional relief and capital was agreed. The residual support of £25m pa ends in 2021/22. The Trust continues to assess each year whether this funding is in line with on-going additional cost pressures from operating services at the County site. Local demographics and changing health needs are leading to growing and changing demand for services, as population age and deprivation are driving up the need for social and community services to complement enhanced hospital care.

System Context: At the time of the integration, the TSA identified the area as being a 'distressed local health economy', and the Staffordshire and Stoke-on-Trent STP's 6 CCGs still face a growing funding gap, with a forecast a 'do nothing' scenario deficit of £286m by 2020/21, with an additional £256m of pressure in social care meaning a total financial gap of £542m. The TSA merger business case acknowledged that the continued operation of the County Hospital site constituted an additional operational cost pressure to the Trust. The funding package agreed with regulators to offset the inherited run rate deficit of the site was deemed to be insufficient by the Trust at the time. NHS England has undertaken a deep dive into the drivers of the system's challenges and held a number of workshops with key stakeholders in the STP. They highlighted a number of areas where greater collaboration is required in order to improve pathways and models of care.

Financial Strategy: The findings of the DoD report will be used to inform the development of the three year Financial Recovery Plan (FRP) for the Trust. Building upon the work to date in delivering the ongoing Cost Improvement Programme, the development of the FRP with key Trust stakeholders, will outline the programme stages to close the gap between the current financial position and the identified recovery position (less the structural elements of the deficit).

Key Findings of the Report: The analysis undertaken identified that of the Trust's £104.9m underlying deficit £99.4m has been identified as follows:

Operational (£57.9m 55.2%) - of which key drivers were: Workforce size, shape and temporary staffing at £20.7m, Under Recovery of Income of £13m and Fines and Penalties of £10.7m

Strategic (£13.2m 27.0%) – of which key drivers were: Non PBR income £5.1m, Length of Stay at £5m and Case mix (and A&E) of £4.2m.

Structural (£28.3m 12.6%) – of which key drivers were: The estates at £7.2m and the PFI of £21.1m

Key next steps for the Trust: The report suggests that there are significant operational and productivity opportunities which the Trust should focus on delivering, whilst beginning to engage with the Local Health Economy around improvements to clinical pathways and models of care. Specifically :

- Continue work to accurately map costs and activity across the two sites in order to identify the financial inefficiency driven by the County site. This should inform the development of a future clinical strategy that is financially sustainable.
- Undertake further analysis of these areas as part of the19/20 CIP planning process.
- Increase the grip and control throughout the organisation, including at a divisional level.

Key findings (2 of 2)

The Trust's underlying deficit for 2015/16 was £102.8m [based on analysis performed by PwC within the 2016 drivers of the deficit report]. This worsened to year end underlying deficit of £109.7m but was pulled back from a projected £119m deficit in Q2 by cost improvement actions in Quarters 3 and 4. The Trust out-turned at £28m deficit (which included the transitional support). In 2017/18 the underlying deficit has been estimated at £104.9m, which indicated an improvement in the position from prior year. Analysis performed on the 2017/18 underlying run rate from that at entry into the year would indicate a deficit of between £85.2m and £92.4m based on the 3 month and 6 month rolling averages.

The original Drivers of Deficit report published in October 2016 identified £100.6m of drivers against a £102.8m underlying deficit. The refreshed analysis has identified £99.4m against the themes found in the original report. Some £5.5m remained unidentified.

If actions are taken on specific areas of the benchmarking to upper quartile rather than peer median, the unidentified gap of £5.5m is eliminated entirely. The table below provides an overview of this by theme. However given the current financial and operational position of the Trust, achieving Upper Quartile in all areas is aspirational; the Trust is prioritising moving to Median in the short term with a view to then understanding steps which could be taken to move towards Upper Quartile in the medium term.

Driver of Deficit Theme	*PwC Oct '16 Value*	Median – updated'18	Upper quartile; DoD updated '18
OPERATIONAL	***41.2***	**57.9**	**85.5**
Theatre utilisation & capacity	*4*	7.0	7.0
Best practice tariff	*1*	0.0	0.0
High cost drugs and devices	*1.2*	0.6	0.6
Outpatients	*3.9*	1.8	2.8
Workforce – size and shape analysis	*6.5*	11.4	38.0
Workforce – bank & agency premium	*16.9*	9.3	9.3
Under Recovery of income	*1.8**	13.0	13.0
Fines and penalties	*5.9*	10.7	10.7
Elective LoS	-	4.1	4.1
STRATEGIC	**23.7**	**13.2**	**13.2**
Emergency LoS	*0.4*	0.9	0.9
Non-PBR income	*4.9*	5.1	5.1
Social Care provision	*4*	-	-
DTOC	*6.5*	2.3	2.3
Case mix and A&E conversion rates	*6.9*	4.2	4.2
Complex A&E activity	*1*	0.7	0.7
STRUCTURAL	***35.7***	**28.3**	**42.4**
The estates	*27.6*	7.2	21.3
PFI	-	21.1	21.1
Capital merger funding	*8.1*	0.0	0.0
Identified	***100.6***	**99.4**	**141.1**
Unidentified	***2.2***	***5.5***	**-**
Underlying deficit	***102.8***	**104.9**	**104.9**

Key next steps for the Trust (1 of 2)

The analysis of the Trust's drivers of deficit has identified a number of key considerations and subsequent actions to be taken in collaboration with the local health economy.

Next Steps

Median v Upper Quartile

The work to refresh the previous DoD has identified drivers totalling £99.4m. This is based on achieving median performance compared to peers. It should be recognised however that 7 of 9 peers previously used are now in deficit and therefore if the Trust aims to return to a breakeven position, aspiring to peer median is conservative. If upper quartile benchmarks were achieved in key operational areas including workforce, LoS, DTOCs, Outpatients and Estates a further £41.7m of opportunity has been identified.

Given the current operational and financial challenges aspiring to upper quartile is an ambitious challenge. Realistic timelines for each relevant area being carefully considered and set out as part of the FRP planning process.

Further exploration of the cost base

The other key issue to recognise is that the refresh has looked at those areas identified as drivers in the original report. This means that there are areas of the cost base that have not been benchmarked and may be driving higher than average cost or lower productivity.

Given these are largely operational in nature further analysis of these areas will be explored through 19/20 CIP planning process and built into the FRP.

Collaboration across the local health economy

There are a number of drivers which, when addressed, will result in an increase in income or reduction in financial penalties to the Trust. There are further productivity opportunities that could be realised as either cost out or income gain e.g. theatres and outpatients capacity release. The impact of this is that the financial improvement within the Trust may result in an affordability challenge for local commissioners who have a significant deficit to manage .

Although there are significant opportunities for the Trust to deliver productivity efficiencies, there is a need for a transparent dialogue regarding the plans to deliver these benefits with the local health economy so timescales and values are clear to all impacted parties. There will be a need for some joint decision making on how benefits are realised once the Trust has delivered the required improvements.

Key next steps for the Trust (2 of 2)

The analysis of the Trust's drivers of deficit has identified a number of key considerations and subsequent actions to be taken in collaboration with the local health economy.

Utilisation of County and impact on structural, strategic and operational drivers

It is recognised from the integration business case that the County site acquisition brings with it a level of structural deficit, owing to the continued operation of under-utilised or relative high cost services. Specifically A&E, Midwife led unit, an HDU and associated support functions and rotas etc. This was recognised in the transaction business case at which time £25m of annual support was allocated to the Trust in recognition.

Whilst this value is not in addition to the drivers of the deficit identified, it will form part of the driver behind variance in cost in areas. This may include aspects such as workforce and estates and as such may categorise some of the operational opportunity as strategic and structural.

Next Steps

Refresh of detailed work to map current costs and activity across the two sites in order to identify the on-going financial inefficiency driven by supporting under-utilised services and capacity at the County site. This work is being completed at a suitably detailed level to support the development of a future clinical strategy that shapes future services around the needs of the population in a way that is financially sustainable, and recognises any need to continue to deliver sub optimal services and the associated structural cost.