

# Report in the **Public Interest**

**Barking, Havering and Redbridge University Hospitals  
NHS Trust**  
**Audit 2010/11**

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# Introduction

**1** I am the Auditor appointed by the Audit Commission to audit the accounts of Barking, Havering and Redbridge University Hospitals NHS Trust for the financial year ending 31 March 2011.

**2** This report is issued under section 8 of the Audit Commission Act 1998 (the Act). This requires me to consider whether, in the public interest, I should make a report on any significant matter coming to my attention.

**3** The purpose of this report is to bring to the attention of the public and seek the Trust's response to:

- its failure to meet its statutory financial duties;
- the seriousness of the Trust's current financial position; and
- the action that the Trust now needs to take to improve its financial position and meet its statutory financial duties on a sustainable basis.

**4** My report is to the Trust, but should be considered within the context of the local health economy within which it operates. Actions by one body in the health economy can significantly affect others and the Trust will need to work with local partners to achieve a sustainable improvement in its financial position.

# Historical financial performance

- 5** Barking, Havering and Redbridge University Hospitals NHS Trust (the Trust) is one of the largest acute hospital trusts in England serving a population of 750,000 in outer north east London. It operates across two main sites at Queen's Hospital at Romford and King George Hospital at Ilford.
- 6** Paragraph 2(1) of Schedule 5 to the National Health Service Act 2006 states that, 'Each NHS trust must ensure that its revenue is not less than sufficient, taking one financial year with another, to meet outgoings properly chargeable to revenue account.' NHS trusts normally plan to meet this duty by achieving a balanced position on their income and expenditure accounts each and every year.
- 7** In 1997 the Department of Health and the Treasury agreed that the duty will be assumed to be met if expenditure is covered by income over a rolling three year period. Exceptionally, the breakeven duty is assumed to be met if expenditure is covered by income over a rolling five year period. Such an extension to the period requires the approval of the Strategic Health Authority.
- 8** The period over which the Trust's performance was to be measured was extended to five years in 2007/08, following agreement with NHS London (the Strategic Health Authority) as part of a financial turnaround programme. The five year period agreed ran from 2005/06 to 2009/10.
- 9** As is shown in table 1, the Trust's overall financial position has steadily deteriorated and it failed to break-even over the five year period.

Table 1: Breakeven performance

Financial year	Deficit £'000	Cumulative deficit carried forward £'000	Years in cumulative deficit
2005/06	16,009	15,989	1
2006/07	16,844	32,833	2
2007/08	35,621	68,454	3
2008/09	26,214 (1)	94,668	4
2009/10	22,281 (1)	116,949	5

Source: audited accounts: (1) Adjusted for impairment of land and buildings.

#### 2005/06

10 The Trust reported a deficit of £16m. The position included the use of non-recurrent savings measures of £7m. The Trust agreed a financial recovery plan and this was a four year turnaround programme that was due to deliver savings of £25.1m.

#### 2006/07

11 The Trust's overall financial position continued to deteriorate with a £16.8m deficit incurred, despite a surplus of £19.6m arising from the sale of land on the Harold Wood and Oldchurch hospital sites.

#### 2007/08

12 The Trust's original financial recovery plan target for 2007/08 was to achieve a deficit of £14.3m which required achieving cost improvements of £25.1m.

13 There were significant changes to the Board and management team during the year with the appointment of a new Chair, Chief Executive and Finance Director. In September 2007 the management team assessed the budget as unachievable and the savings plans as unrealistic. A revised turnaround plan, including a planned deficit of £39.9m was agreed with NHS London in November 2007.

14 In the event the Trust managed to deliver a deficit of £35.6m. Adjusting for non-recurrent factors, the Trust's outturn for the year was a deficit of £52.7m. Of the planned savings of £25.1m, only £1.3m was achieved.

## 2008/09

15 In March 2008 the Trust agreed a revised three year financial plan. If successfully delivered the Trust would return to an in-year surplus position, with surpluses of £1.2m in 2009/10 and £7.2m in 2010/11 planned.

16 A deficit of £23.3m was planned for 2008/09. The outturn, adjusting for impairments was a deficit of £26.2m, with in year savings of £28.2m achieved. However, the cumulative deficit had risen to £94.7m.

17 The death of the Chair in September 2008 saw the position filled on an interim basis until a one year appointment was made in January 2010. There were further changes during the year with the departure of the Finance Director and HR Director.

## 2009/10

18 The original turnaround plan agreed in 2008 proposed a £1.2m surplus for 2009/10. Subsequent revisions amended this to a deficit of £10.8m. Further negotiations gave a revised target deficit for the Trust for the year of £19.7m.

19 Although the Trust achieved cost improvements of £29m (7.5 per cent of turnover) the final outturn, adjusting for impairments and the impact of introducing International Financial Reporting Standards, was a deficit of £22.3m. Consequently the Trust failed to meet its statutory breakeven duty.

20 There were further changes to the Executive Team in 2009/10 with new appointments to the posts of Finance Director (April 2009), Nursing Director (January 2010) and Director of Planning and Strategy (January 2010).

## The five year period

21 The Trust's financial performance over the five year period was characterised by:

- failure to deliver agreed savings plans;
- frequent changes to the management team; and
- ongoing revisions to turnaround plans.

## 2010/11

22 A target deficit has been agreed with NHS London of £19.5m but the weaknesses outlined above still exist.

23 The latest financial report (October 2010) showed a net deficit of £24.3m against a budgeted deficit of £14.8m for the first seven months of the year. Achieving the planned deficit for the whole year is assessed as high risk, with the latest projection for the whole year showing a £29.3m deficit.

24 A new Medical Director was appointed in April 2010 and an interim Chair was appointed in August 2010, after the resignation of the Chair appointed in January 2010. The Medical Director has now left for another post and the position is being filled on an interim basis.

## Previous audit concerns raised

**25** Audit concerns have been raised over a number of years and more recently, on 19 June 2009, I made a referral to the Secretary of State under section 19 of the 1998 Act because of the Trust's likely breach of its statutory breakeven duty to the end of the financial year 2009/10.

**26** I considered at that time whether to issue a public interest report on the Trust's financial standing. While the Trust's financial position remained extremely challenging, I was aware that the Trust Board had:

- established a formal financial recovery programme that had delivered £28.2m million in recurrent cost savings in 2008/09;
- strengthened management and financial capacity; and
- obtained support from the Challenged Trust Board (CTB) set up by NHS London to deliver a sustainable financial position.

**27** Other more radical and structural solutions were also being considered by NHS London as part of the wider review of services in north east London. Given the actions of the Trust and NHS London I therefore decided not to publish such a report at that time.

**28** I summarised the position in my 2008/09 Annual Audit Letter, recommending to the Board that it should closely monitor the delivery of the financial plan, including the turnaround programme and take corrective action as necessary to ensure that the Trust achieved its agreed financial targets. The Trust agreed my recommendations and linked its action plan response to work it was doing with the CTB.

**29** During 2009/10 the Trust continued to work with the CTB and local PCTs to demonstrate that it could deliver long term sustainability and that it had the strategic and clinical leadership in place to enable it to deliver care to the required clinical standards.

**30** Early assessments for the CTB reported that the Trust had made progress in all areas and whilst there remained 'much to be done', 'strong foundations for improvement' had been laid and full support was being given to the Trust's application for funding from the CTB.

**31** This support continued through 2009/10 and £3m of funding was provided to help the Trust increase its nursing staffing and accelerate its service improvements. Additionally the CTB amended its assessment process to enable a staged assessment of the Trust's progress during what was expected to be a protracted recovery period.

**32** In my 2009/10 Annual Audit Letter I made it clear that the Board should continue:

- the work it was undertaking with its stakeholders as part of the CTB process to improve the economy, efficiency and effectiveness of its services; and
- to monitor the delivery of the financial plan and savings plans, and take corrective action as necessary to ensure that the Trust achieves its agreed financial targets for the year 2010/11.

## The need for a public interest report

**33** The Board has taken a number of actions by initiating a turnaround process, developing financial recovery plans and working with local commissioners and NHS London to develop a sustainable financial position. There have been some improvements and cost efficiencies have been made, as evidenced by the reference costs published by the Department of Health. In addition, the Trust had been negotiating with NHS London to secure the funding to write-off the historical deficit. Despite all this, the Trust's financial position is still a matter for serious concern.

**34** Whilst the CTB is continuing to be supportive of the Trust it has now expressed its concern about the slow progress that the Trust has made against agreed efficiency plans for closing wards and reducing average lengths of stay. These actions are key to a successful turnaround but the numerous changes at Board level in recent years mean that consistent leadership has not been provided.

**35** Future CTB funding is predicated on the Trust deficit not exceeding the limit agreed. It is now clear to me that the Trust is highly unlikely to deliver the level of savings and efficiencies required. Even if they are achieved, this will be the sixth successive year that the Trust has failed to breakeven and over that period the income of the Trust increased every year. The Trust is likely to receive significantly lower income in future years as the NHS is expected to make 3-4% efficiency savings each year going forward.

**36** The challenge of achieving a sustainable breakeven position is particularly difficult for the Trust as:

- it has a high level of fixed costs as a result of the Queen's Hospital PFI scheme. For example, interest charges make up 4.6 per cent of overall operating costs, while at most Trusts with PFIs they are below 3 per cent; and
- it has significantly lower non-Payment by Results (PbR) income than other trusts. In 2009/10 25 per cent of the Trust's income of £345m was from sources other than PbR. The national average is 39 per cent.

**37** The Trust's deficit has created a severe cash shortfall which is resulting in the Trust having difficulties in meeting its financial obligations. Further failure to meet recovery plans will exacerbate this position.

**38** The Trust has struggled to deliver all the agreed savings plans, and many have been subject to significant in-year revision. The reasons for this are numerous and are related to the fact that there is not an embedded culture that acknowledges the importance of financial management throughout the Trust. Too many staff have regarded financial management as an issue for senior management and the finance department only and this has led to:

- a failure to sufficiently control agency staff costs;
- historically poor quality medical and ward staffing data and a failure to consistently understand how costs in these areas compare with other trusts; and
- a lack of consistent clinical directorate support in delivering the savings plans developed and agreed by the Board.

**39** I have therefore concluded that there is now a need to issue this report in the public interest on the Trust's financial standing because:

- of the failure of the Trust to meet its statutory financial duty to achieve cumulative breakeven over the five year period ending 31 March 2010;
- the deficit for 2010/11 will be larger than that planned; and
- income will reduce in future years.

## Recommended actions

**40** The Trust needs to take action now to:

- review the existing recovery plan to ensure that it realistically addresses the need to recover the Trust's cumulative deficit over an agreed period of time;
- deliver agreed savings plans in line with agreed timetables;
- improve the quality of data on medical and ward staffing to allow future plans and strategies to be based on an accurate understanding of the Trust's position in comparison to its peers; and
- manage the cash position during the recovery period.

**41** The Trust should identify and cost all risks to its financial position and reassess them regularly, reporting the position clearly to the Board and NHS London.

**42** The Trust and its partners need to determine the shape of future hospital services to be provided by the Trust by finalising work on the future structure of the services to be provided in east London. This work will need to include decisions on the services to be provided at King George Hospital and referrals by local commissioners to other Trusts.

**43** The successful implementation of the actions included in this report will require a significant change in culture for a large number of staff at the Trust. There needs to be a shared recognition by all staff that sound financial management is an important part of their job.

**Jon Hayes**  
**District Auditor**

**January 2011**

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