ITEM: 08/185
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MEETING: TRUST BOARD 17 DECEMBER 2008

TITLE: Strategic review of Cost Improvement Programmes

SUMMARY: The Trust is required to make efficiency savings year on year to fund service improvements and cost pressures, and to do this within the existing budgets, tariff uplift (which includes an efficiency assumption) and any additional income that a service development may bring.

In developing the integrated business plan and long term financial model (LTFM), a number of risks and sensitivities have been identified. In the assumptions underlying the most recent draft of the LTFM, a cost improvement target (CIP) of £8 million has been identified for 2009/10. Work is currently being undertaken to update the model in the light of latest activity, income and expenditure assumptions, and the scale of the cost improvement required is under review.

Ensuring full delivery of the cost improvement programme will ensure that the Trust meets its existing statutory requirement to breakeven, and deliver a surplus to invest in future service improvements. Additionally this will mitigate the financial risk rating keeping it at 3 or above.

This report :

- provides some historical context to the CIP currently under development, by outlining the cost improvement programmes that have been delivered by the Trust in 2005/06, 2006/07. 2007/08 and 2008/09;
- summarises progress made to date with the identification of savings projects and income generation opportunities to meet the required level of CIP for 2009/10;
- outlines the main themes of that we anticipate will form the main focus of the CIPs in 2010/11 and future years.

ACTION:

REPORT FROM: Eleanor Hellier, Assistant Director of Finance

SPONSORED BY: Richard Martin, Director of Finance

Financial Validation Lead: Director of Finance	

Compliance with statute, directions, policy, guidance Lead: All directors	

Compliance with Healthcare Commission Core/Developmental Standards Lead: Director of Nursing & Clinical Development	**Reference:**

Compliance with Auditors' Local Evaluation standards (ALE) Lead: Director of Finance	**Reference:**

Compliance with requirements of FT application and monitoring regime Lead: Director of Strategy & Performance	**Reference:**

1. Cost Improvement Programmes 2005/06 – 2008/09

Table 1 provides a high-level analysis of the last three plus the current financial years' CIPs. The analysis of the 2009/10 plan is shown, for comparison. More detail on the 2009/10 plan is set out in section 2 below

Table 1	**2005/06 actual £'000**	**2006/07 actual £'000**	**2007/08 actual £'000**	**2008/09 forecast £'000**	**2009/10 Plan £'000**
Cost reductions					
- Pay	1,814	3,029	1,321	1,323	3,087
- Non-pay	1,678	3,099	3,442	1,670	1,535
TOTAL EXPENDITURE REDUCTIONS	**3,492**	**6,128**	**4,763**	**2,993**	**4,622**
Income from new or expanded services		971	141	454	426
Improved income recovery (data capture and coding)		267	563	482	250
Non recurrent income : brought forward as a result of outpatient productivity improvements					500
Year-on-year growth in value of SLAs : excess of income growth over associated costs	3,032	3,654	2,409	689	2,200
Non-recurrent income associated with exceeding 2006/07 target surplus			580		
TOTAL INCOME GROWTH	**3,032**	**4,892**	**3,693**	**1,625**	**3,376**
Total financial recovery programme	**6,524**	**11,020**	**8,456**	**4,619**	**7,998**
as a % of turnover	5%	7.7%	5.7%	2.8%	4.7%

Table 2 shows how much of each year's savings was delivered recurrently and how much non-recurrently.

Table 2	**2005/06 actual £'000**	**2006/07 actual £'000**	**2007/08 actual £'000**	**2008/09 forecast £'000**	**2009/10 plan £'000**
Recurrent	4,978	9,440	7,326	4,051	7,498
Non-recurrent	1,546	1,580	1,131	568	500
Total	**6,524**	**11,020**	**8,456**	**4,619**	**7,998**

The main contributory factors in the successful delivery of these savings programmes have been :

- Establishment and skill-mix reviews in all Directorates and Departments;
- Head-count reduction target in 2005/06 and 2006/07
- Cumulative impact of improvements in the completeness of data captured on PAS and accuracy of clinical coding;
- Contribution made by service growth, eg expansion of maternity services, NICU and adult intensive care;
- Sustained reductions in length of stay enabling reductions in the bed-base over time;
- Temporary reductions in the bed base to reflect seasonal fluctuations in activity;
- Productivity gains eg SLA over-performance income generated through a stable or reducing bed-base;
- Application of reserves and provisions built up during a period of growing activity, during which the increases in SLA income have exceeded the associated marginal costs. The resulting contribution has been applied against the CIP target.

2. Cost Improvement Programme 2009/10

The following table summarises the projects that are being developed to deliver the required level of cost reduction / new income generation in 2009/10. The target of £8million represents 4.7% of operating income.

Theme	**Brief Description**	**Saving target**
Making Best Use of Beds	In 2009/10 the Making Best Use of Beds project will concentrate on reducing the inpatient length of stay, thus enabling a reduction in the Trust bed-base and some reconfiguration of the bed-base. Other benefits of the project include reduction in pre-op length of stay, increased day-case rate and DTC utilisation, potential reduction in MRSA infection due to reduced LOS post-operatively, increased exposure of local people to the DTC, so improving impression of the hospital within the local community	£800k
Senior Medical staffing changes	Consultant PAs will be reviewed in line with retirements and any downward changes in activity. Where reductions can be made this will be negotiated as part of the job plan review process.	£157k
Procurement	The Trust procurement function is currently being reviewed and will be strengthened in line with the recommendations of that review. A savings target has been set to deliver cost reductions over and above covering the cost of any changes to the procurement function. The projects so far identified will include (i) reducing the number of items accessible to staff who order from NHS logistics, (ii) introducing a new gate keeping mechanism	£360k

	to prevent the ease of changing or introducing new products that logistics supply, (iii) examining the top 100 high value possible low volume items with the aim to reduce costs, (iv) reviewing the range of high cost single use consumables in theatre, (v) exploring the cost of a basic single use set for certain surgical procedures (e.g. hernia) compared to the cost of sterilising reusable instruments; (vi) expanding the range of products stocked in the bulk store, (vii) stock management reviews in all specialist clinical areas; (iv) scrutinising all existing and new contracts for best value for money and (v) tendering any services/products as required. The projects will operate within a policy framework set by the Procurement Strategy Group, the Clinical Consumables Review Group and the Medical Devices Group, as necessary.	
Energy efficiency	A renewed campaign to reduce energy consumption is being launched in December as part of the Sustainability and Environmental Strategy. The continuation of the boiler decentralisation programme will enable savings to be made, as the new boilers are more efficient, there will be a reduction in distribution losses, and once the old oil boilers can be decommissioned there will be maintenance savings.	£130k
Site revaluation, and rating rebates	The value of the site at modern equivalent asset value is being assessed. It is planned to exploit the potential for short-term rate rebates in respect of temporarily de-commissioned buildings.	£550k
Ward and Outpatient establishment reviews	Establishment levels and skill-mix will be reviewed across all wards and clinics. Where there are seasonal fluctuations in clinical activity, flexible working arrangements will be negotiated, so as to better match resources and demand. On some wards, bed thinning will not only deliver infection control benefits but will also enable establishment savings to be made. These are all supported by the the Making Best use of Beds programme.	£493k
ED establishment review	A review of nursing establishment will be undertaken, in line with current and projected reductions in patient flows. The review will also encompass the management of annual leave, training needs analysis and the allocation of study leave to better manage these and reduce reliance on agency / bank cover.	£275k
Theatres establishment review	The nursing establishment of the theatre and DTC complex will be reviewed in line with the best practice recommendations of appropriate professional bodies. Systems for scheduling and rostering will be thoroughly	£450k

	reviewed. The project will aim for a better alignment of workforce availability with workload patterns, thus reducing unnecessary bank/agency bookings	
Reduce inappropriate or unnecessary temporary staffing costs	There are a number of projects which will have an impact on the Trust's temporary staffing expenditure. The sickness absence management project will lead to a reduction in bank and agency staff booked to cover sickness absence, with major service quality as well as financial benefits. The implementation of the e-rostering system will reduce inefficiencies in ward nursing staff rostering, by reducing the level of inadvertent bank bookings.	£300k
Drug costs	Savings targets will be agreed for prescribing and medicines management including the benefits realisation of the pharmacy stock control system. Pharmacy will continue to seek procurement savings through negotiation of contract prices and taking full advantage of the purchasing power of PASA and LPP	£170k
Establishment reviews (other than those specified above)	A headcount reduction target has been set for the Directorates and Divisions not already under review as described in the projects listed above.	£178k
Urology Service redesign	The savings will come from the service changes identified in a previous business case approved at HMB. The cost savings arise from changes to the medical rota across the Whittington and Royal Free Hospitals. The additional income will be generated through service growth.	£77k cost savings and £50k additional income
Stop printing diagnostic test results	A review of system and process to reduce any risks associated with digital reporting will be undertaken to enable this project.	£53k
Capitalise IT project management costs	In line with the large number of IM&T projects in 2009/10 the Trust will capitalise the staff costs associated with the projects creating revenue savings.	£200k
Non-pay efficiencies	A range of projects focussing on reducing non-pay costs, including : • ward non-pay efficiency targets • ensure patients receive no more than the funded NHS entitlement of appliances and equipment eg orthotics, wigs, voice boxed, air casts, hearing aids • reduce legal costs through reviewing instructions and fees • review Postgraduate Centre subsidy	£130k
Other projects	A number of other cost reduction projects each targeted with saving in the region of £5k-£10k.	£50k

Review of over-spending budgets	Directors and General Managers are currently reviewing all budgets which are over-spent in 2008/09, to identify how expenditure can be reined back within budget. This will help to reduce the scale of the cost pressure being carried into 2009/10 and hence the scale of the CIP required to achieve financial balance in that year.	
HDU configuration	By formally designating a number of High Dependency Units, the Trust will be able to generate income to cover the true costs of high dependency patients currently being nursed in those clinical areas (Victoria, Mary Seacole, Montuschi). Formal notice has been given to Islington PCT that from April 2009 we will be classifying all level 2 HDU patients (not just those in the main Critical Care unit) appropriately on PAS and will therefore begin charging for HDU bed-days as we are entitled to under PbR rules.	£2 m income
Comprehensive data capture on PAS, and improved clinical coding	This is an ongoing project to improve data quality and capture that has resulted in income gains over recent years. There is scope to continue to improve the completeness of our data capture for a further year.	£250k income
Service developments	Potential developments include ECG reporting service for C&I Mental Health FT, private varicose veins service, direct access abdominal pain screening, TB screening for the prison service, pulmonary rehabilitation service, and increased volume of direct access work in mammography, MRI, CT and AA screening.	£79k income
PbR changes	Removal of emergency threshold and differential marginal pricing for increases in emergency activity	£200k income
DTC activity growth	This sum is a market growth target. Growth may come from a shift in high volume low risk patients as a result in the implementation of stroke and trauma centres impacting on those centres capacity. Growth may also come from improved reputation locally amongst GPs.	£250k income
Outpatient productivity	Reductions in the level of hospital cancellations and DNAs will result in a quantum of out-patient activity taking place earlier than it would otherwise have done, enabling income to be earned earlier, a one-off financial benefit.	£500k non-recurrent income
Full year impact of 2008/09 programme	A number of cost reduction programmes have commenced part way through 2008/09 and so the full-year benefit remains to be delivered in 2009/10.	£295k

3. Cost Improvement programmes 2010/11 and onwards

The Long term financial model provides a CIP of 2.3% of turnover in 2010/11 and each financial year, to meet the implied efficiency target built into the assumptions about annual tariff uplift and to cover cost pressures associated with service developments.

The main focus of the CIP in 2010/11 onwards is on maximising productivity through making effective use of the Trust's asset base. Efficiency benefits will be driven out throughout the Trust, in wards, operating theatres, outpatient clinics, diagnostic services and non-clinical departments. A key tool to enable this to be achieved will be the development of patient-level costing and service-line reporting.

In 2010/11 and subsequent years, the required level of CIP will be generated solely through reductions in pay and non-pay costs, and will not rely on the generation of contribution from additional income.