

ITEM: 09/040 Doc: 4

Meeting: Trust Board Date: 18 th March 2009

Title: FT Application

Executive Summary: This paper recommends that the Board does not reinitiate its FT application within the current postponement period that expires on the 31 st of March 2009. Instead, it is proposed that the Board either (i) asks for an extension to the postponement period for up to twelve months or (ii) withdraws its current application and resubmits a fresh application in accordance with the national timetable for all trusts to achieve FT status by December 2010.
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Action: For decision

Report from: <i>David Sloman, Chief Executive</i>
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Financial Validation Lead: Director of Finance	Not applicable
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Compliance with statute, directions, policy, guidance Lead: All directors	Reference: Not applicable
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Compliance with Healthcare Commission Core/Developmental Standards Lead: Director of Nursing & Clinical Development	Reference: Not applicable
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Compliance with Auditors' Local Evaluation standards (ALE) Lead: Director of Finance	Reference: Not applicable
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Evidence for self-certification under the Monitor compliance regime Lead: All directors	Compliance framework reference: Not applicable
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1. Executive Summary

This paper recommends that the Board does not reinitiate its FT application within the current postponement period that expires on the 31st of March 2009.

Instead, it is recommended that the Board either (i) asks for an extension to the postponement period for up to twelve months or (ii) withdraws its current application and resubmits a fresh application in accordance with the national timetable for all trusts to achieve FT status by December 2010.

2. Context

In March 2008 the Board asked Monitor for a postponement of its FT application process. The request was accepted by Monitor who agreed an extension of up to one year, ending 31 March 2009. It was agreed that the postponement period would be used to address a number of unresolved issues that emerged during the assessment process. These were as follows.

- To risk assess the potential impact of the Healthcare for London strategy, and in particular the potential impact on the emergency department.
- To bottom out the service and financial risks associated with the opening of the day treatment centre (DTC).
- To review the proposed maternity development.
- To fully address the outstanding governance issues identified in the due diligence reports.
- To undertake a 'fitness for purpose' review of the finance department.

Significant progress has been made on all key areas as summarised below.

- An impact assessment of the Healthcare for London strategy has been undertaken and was agreed by the PCTs within the sector. However, it is acknowledged that this needs to be kept under continual review.
- The DTC has now been up and running for one year and robust activity and financial modelling has been built into the five year business plan.
- The maternity investment plan has been revisited and downsized significantly. Parallel work continues around the development of strategic and transformational options for the development of the service.
- The outstanding governance issues identified in the due diligence reports have been addressed and externally assured by KPMG.
- A fitness for purpose review of the finance department was undertaken by KPMG. Good progress has been made against the identified actions for improvement, progress that has been externally assured by KPMG.

3. New Risks

During the postponement period a number of new issues have emerged that together represent an increase in the level of financial risk and uncertainty facing the trust.

- Recently confirmed changes to the tariff and to the market forces factor (MFF) supplement will have a significant impact on trust income. The Whittington is the most materially affected trust in the NHS in percentage terms by the MFF changes, losing 14% or £9.5m of income over the next two years as the level of MFF support drops from 37% to 23%.
- There is an apparent and associated increase in the level of financial risk in the local health economy, accentuated in the short term by changes to the local commissioning processes as the PCTs collectivise their hospital commissioning functions. It will be noted that at the time of writing (11th March 2009) the 2009/10 contracts are unsigned.
- Changes in international accounting rules (IFRS) from April 2009 mean that the trust PFI will come onto the balance sheet. This will have a negative bottom line impact of around £2m.
- The profound changes in the macro economic environment have yet to be fully understood or quantified either nationally or locally, but are likely to have an impact on the public sector finances.
- In a letter of 2nd March, Monitor has advised applicant trusts of the associated recasting of a number of its key assessment metrics. This includes an increase in the requirement for efficiency savings to 4.5% on the downside case, and a reduction in the level of the assumed tariff increase to 0.7% on the downside case.

In the context of the above the trust does not have a robust five year integrated business plan (IBP) and supporting long term financial model (LTFM) to resubmit to Monitor by the end of March 2009.

4. Options moving forward

In the light of the above there are two options available to the Board.

- To ask for a further extension of the postponement period. Given the level of risk and uncertainty, it is envisaged that an extension of one year will be required.
- To withdraw its application.

Regardless of the decision, the trust will need to think through how this decision is communicated both internally and externally, and particular thought will need to be given to the implications for the shadow FT membership and council of governors.

Strategically, the trust will also need to give thought to how it can best achieve FT status for its services by the 2010 national deadline. This work will be informed by associated sector-wide discussions led by local PCTs.

5. Action

The Board is asked to:

1. Confirm that it does not wish to reinitiate its FT application within the current postponement period.
2. Either:
 - 2a. Withdraw its current application and resubmit a fresh application in accordance with the national timetable for all trusts reaching FT status by December 2010.

Or:

- 2b. Ask for a further extension to the postponement period of up to twelve months.

David Sloman