

# Merger project: summary event report

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## Stakeholder event: Finance

20 October 2011, 12.30pm – 3pm, West Ham United Football Club

### 1. Overview

Following the publication of the Outline Business Case (OBC) for the proposed merger of Barts and The London NHS Trust, Newham University Hospital NHS Trust and Whipps Cross University Hospital NHS Trust, the programme began to seek views from local stakeholders on the proposal to merge but also to inform integration planning for the new organisation.

Detail integration plans are required for the next stage in the merger journey; to publish a Full Business Case (FBC) from which a decision to merge will be taken by the three trust Boards, NHS London, the Department of Health and ultimately the Secretary of State for Health.

A public event – *working in partnership across east London* – was held on the 15 September 2011 and provided a valuable opportunity for the three trusts to engage with local stakeholders and the community on the proposed merger. A full report from this event can be provided upon request.

Feedback from this event (and other meetings) led us to establish a specific stakeholder event on the financial challenges facing our existing three trusts and how the merger seeks to improve the financial stability of the health economy. The aim of this event was to help local people understand the current situation of the three trusts, the financial projections and benefits of the merger and provide an opportunity to debate and raise questions directly to the finance workstream and Directors of Finance from each of the three trusts.

Local councillors, local authority staff, MPs, GPs, patients and the public from across the local boroughs and representatives from Local Involvement Networks (LINKs) and local community groups were all invited to attend. A list of speakers and attendees is provided at Appendix 1.

### 2. The format of the event

#### Welcome and overview:

Stephen O'Brien, Chair, Barts and The London, and Integration Chair for the merger project, welcomed all delegates and provided the context for the event, background to the merger and the steps taken to date.

#### National and local perspective:

As the assembled delegates had differing levels of awareness around the national and local NHS financial context, Peter Shanahan, Chief Financial Officer for the merger project, provided a detailed overview of the financial situation, including how the NHS commissions services and manages its money. He also provided an outline on the process which will see all acute trusts become a Foundation Trust (FT) by 2014, as proposed in the Health Bill currently progressing through parliament, and the challenge this presents to the three legacy trusts.

#### The Trusts:

Presentations were then heard from each of the Finance Directors, who were subsequently praised for articulating the complex information in an easy to understand manner.

Andy Morris, Finance Director, Whipps Cross University Hospital NHS Trust, began by outlining the history behind the current Whipps Hospital deficit and how challenging this has been to repay, whilst continuing to invest in the estate and ensuring there was no impact on patient care or services.

David Gilbert, Finance Director, Newham University Hospital NHS Trust, followed by explaining how the current Private Finance Initiative (PFI) contract operates for Newham Hospital. David also outlined the investment which has been made in new facilities in recent years and the need to now focus on operating these services to optimal efficiency.

Sarah Mussenden, Finance Director, Barts and The London NHS Trust, completed the overview of our legacy trusts and explained that the challenge is not historical for Barts and The London, but rather the immediate future. The new Royal London hospital is opening in December 2011 and with this brings increased payments as part of the PFI contract. Sarah likened this to moving into a new home and with this comes mortgage repayments. Next year Barts and The London will have the first full year of operating from its new premises and therefore the financial picture becomes more constrained, but manageable. Sarah also outlined that Barts and The London is not as efficient as it could be so gains in this area will directly contribute to the bottom line.

Each of the finance directors reiterated their view that the merger provides the local health economy with a great opportunity to ensure financial stability of local health services; to see the historical deficits at Whipps Cross and Newham repaid and to see shared ownership of the future challenges which see the NHS collectively needing to save £20 billion over five years in cost improvement plans (CIPs), essentially due to the economic situation and the inflationary environment.

#### **The Financial Model:**

Following a short refreshment break, Peter Shanahan supported the above presentations by the Finance Directors, summarising that in addition to the clinical, safety and patient experience benefits, a merger will help all three trusts meet the requirements they need to become a FT and address their challenges, particularly around the national CIPs.

Peter outlined how the gap in the current merger financial model, as outlined in the OBC, will be closed through the following:

- Funding by the Challenged Trust Board, which is only available to Whipps Cross and Newham if they change their current organisational form;
- Government support for trusts with PFIs to reach foundation trust status (a national review is currently underway);
- Merger synergies, including the £26m which has been identified in corporate savings;
- Economies of scale e.g. purchasing;
- £31.5m – £116m could be found if the services in each of the trusts were as efficient as the best to be found in the three and further savings can be made in the future as standards are raised further to those who are the best nationally;
- Consolidation and improved productivity in clinical back office services e.g. diagnostic and clinical support;
- Better utilisation of assets/services e.g. Newham's Gateway Surgical Centre and diagnostics.

In summary, the financial story is considerably better as one organisation as the new trust would have the more flexibility to meet its monetary commitments but also the cost improvement programmes are smoothed (although not reduced) which means that the pressure on efficiencies in any given year are more balanced. The financial model will lead to future

proofing for the hospitals and services, allow continued investment in our facilities and keep services local.

**Question and answer session:**

A detailed question and answer session followed both the Trust presentations and the presentation on the Financial Model. All questions raised can be found in the next section of this report.

Questions were answered as appropriate by the presenters listed, and were supported by Stuart Saw, Director of Finance, NHS East London and The City and Terry Huff, Director of Finance, NHS Outer north east London. Dr Mike Gill, Medical Director of Newham University Hospital NHS Trust and Dr Shelia Adam, Clinical Integration Lead for the merger also provided support to any clinical related questions.

The presentations are all provided at **Appendix 2**.

### **3. Q&A session**

**Q: What is the Challenged Trust Board?**

Formed in 2009, the Challenged Trust Board (CTB) was established by the NHS in London to oversee the implementation of the medium term financial strategy across the capital. Each of the primary care trusts (PCTs) in London agreed to top slice their annual allocation from the Department of Health to establish a fund, which would be administered by the CTB, to pay off historical debts held by London trusts. However this could only occur after the trust demonstrated that they had viable and robust plans in place to ensure future difficulties did not arise.

Therefore the CTB acts with the best interests of the commissioners and the local community, and includes representation from PCT Chief Executives, Non-Executive Directors and NHS London.

The CTB has previously advised that the historical deficits at Whipps Cross and Newham will be paid from this fund when they change their organisational form and the CTB is supportive of the proposed merger.

**Q: How will Whipps Cross meet its targets this year – we hear they are asked staff to give up their holidays?**

Whipps Cross has forecast a £6million deficit at the end of this year and has a very high percentage savings target (over 12%) for the 2011-12 year – 28m in one year is a big ask. We know we will not meet this target without additional support and we are working very closely with our commissioners and colleagues to ensure we can close the financial gap as much as possible. The Trust has an extensive list of efficiency plans, and we have also implemented a set of extraordinary measures, including asking staff to consider voluntarily giving up a day's leave and asking doctors to work an additional clinical session within their planned management hours.

**Q: Tell us a bit more about the Barts and The London NHS Trust PFI deal? Are you taking steps to reduce the PFI annual costs like Newham have?**

It is difficult to compare PFI contracts as they are negotiated at different times under different economic circumstances, but on reviewing the Barts and The London deal it is favourable. The contract itself was actually well negotiated and the deal, which is bond funded, is a good one. It is important to know that the £142m ongoing payment to Capital Hospitals (the private partner

who runs the new building) is not just for capital and interest repayments, but at least half of this cost pays for day to day management services such as catering, sterilisation and building maintenance, all of which would have been costs to the organisation regardless of the PFI deal.

The PFI contractors do recognise the economical realities we all face at present and given that we will be working in partnership for 42 years are willing to work with us to reduce costs where possible. For example, out of our 42m saving target this year, we have collaboratively saved 3m and see these saving opportunities continuing next year. We will also not start paying for the costs (or 'mortgage') of the PFI, until we move into the new building at the end of 2011, and will only pay our full annual costs once our services are fully integrated in the new building in 2012.

**Q. Thank you for honestly acknowledging the Barts and The London PFI. However, there is a drive to move more services out of hospital and into the community - how will the new trust achieve this?**

We have based our financial model on commissioner intentions and these obviously include moving more care into the community. If you look at the detail of our financial plan you will note that we are planning to see a reduction in our income with a starting point of £1.1bn to £900m in future years. The merger is supported by our commissioning clusters and we will continue to work together to ensure that we make the same assumptions about the services which need to be provided and to deliver the right care, at the right place to meet local need.

**Q: Can we learn any lessons from PFIs at other NHS Trusts?**

Not all PFI schemes are the same and it isn't possible to make direct comparisons. The earlier ones were less favourably financed as the 'concept' was still in its early days. It is also important to remember that both the Barts and The London and Newham PFI schemes include soft services (building management) provision, and again, not all schemes do.

**Q: Has an audit been carried out of the facilities at all the hospitals? Each of the hospitals is investing in new facilities at the moment could this lead to an overprovision within the new trust?**

We have commissioned external providers to undertake a process called Due and Careful Enquiry which looks at the financial elements of the existing three trusts and a similar piece of work has been commissioned externally to look at each of the hospitals clinical services.

Whipps Cross has a new emergency department due to open in early 2012, Newham has an extension to its maternity unit occurring at the same time and is starting work on a new emergency department. This is in addition to the new estate at Barts and The London.

All this new investment is driven by local demand, our growing population and rising birth rate and supports the Health for north east London proposals which were led by our commissioning colleagues. We also need to work together to change clinical pathways and the use of urgent care services and accident and emergency. By working together and sharing expertise, we can ensure that we provide consistently high levels of care to all patients and make the best use of resources, including our buildings, on-site facilities and staff.

The real prize from the merger has to be the reduction in organisational barriers and enhanced partnership working between hospitals, commissioners, local authorities and the public. We all have a responsibility for the health of our community.

**Q: How does becoming an FT benefit the local community?**

In order to become an FT you need to meet high financial and service level standards as assessed by the external regulator of foundation trusts, Monitor. FTs also have more freedom in how they manage their finances and their ability to borrow funds to invest in local health services is enhanced. Trusts of this nature are also more accountable to the local community as residents, patients, relatives, carers and NHS staff can join as members of the trust. Members also elect a Board of Governors (around 30 people) who represents staff, local residents, patients and other stakeholders such as the relevant local authority to ensure transparency and local involvement in decision making.

**Q: There is a huge challenge to commissioners funding. Do these cutbacks impact the merger?**

We have worked closely with the commissioners to develop our Full Business Case (FBC) which is affordably based upon all the challenges ahead. Our commissioners have to sign off our income predictions, and we will continue to work together to ensure that our plans are viable for the local population and challenges ahead.

**Q: How will you make up the 80m shortfall you mentioned earlier?**

We are still working up the final detail which will be included in the FBC, but the reality is that this cash shortfall exists and collectively we would have to fund this through savings at each of our hospitals through the cost improvement plans. By becoming a single merged organisation we believe we are in a better position to deal with these challenges and provide a sustainable and accessible health service for our communities.

**Q: How will you protect local health services should the merger fail?**

We all want to have sustainable and viable services in north east London but no one can predict the future. We believe that the merger will strengthen our frontline services, increase our efficiency and enhance patient experience. We will collaboratively work together to help make our local health economy as resilient as we possibly can.

There is a greater risk to local services if the merger does not go ahead as both Whipps Cross and Newham have explored their futures over the last few years and this three way merger is the only option available that will not take away local services from local people. The alternative is to enter the Department of Health failure regime and although the detail of what this means is unclear, we do expect that it will see decisions being taken by individuals and groups unfamiliar with north east London.

**Q: What happens to Whipps Cross and Newham if the merger fails?**

After reviewing the criteria to become a FT both Whipps Cross and Newham declared that they will not be able to achieve this status as standalone organisations. If the merger was not to go ahead, they will enter into the failure regime, and their future will be decided by the Secretary of State for Health or they may even risk being taken over by another organisation. We believe the merger is the best way to ensure a resilient future, collaboratively drive up our quality for local patients and keep control of our own future.

Should the merger not progress we believe this presents a greater risk to local services in that it is likely that we would see a decline in quality as staff look to further their career development elsewhere due to the level of uncertainty and the financial difficulties continue.

There is also a limit to what we can do within the current organisational arrangements and there is a clear need to change, to create one culture, one ethos and one leadership team.

**Q: What is in this merger for Barts and The London NHS Trust? Will BLT have to take on the burden of debt at Whipps Cross and Newham?**

Although Barts and The London could theoretically achieve FT status as a single organisation, it would not be an easy journey. The merger supports all three trusts to achieve FT status, and reduces the challenge that the trust's face individually. We should also remember that the merger is also driven by a clinical case and we look forward to working with our colleagues at Newham and Whipps cross to achieve the fantastic benefits the merger will offer our patients and staff – some of which are outlined in our prospectus which is available on request.

**Non-financial questions raised by delegates outside of the plenary sessions included:**

**Q: Would the merger mean local maternity units/A&Es would close?**

The merger would actually strengthen the resilience of these services. A new A&E is currently under construction at Whipps Cross and funding has just been secured to redevelop the A&E site at Newham. The extension to Newham's maternity unit is due to open in Jan 2012. Most of the new hospital at The Royal London will open in 2012. Merger would mean we could strengthen these services by ensuring we have senior consultant cover across all sites 24/7 and by working together we could provide more comprehensive, coordinated care.

**Q: Isn't a merger risky?**

A merger is the three trust's best solution to the current commissioners' intentions, future demands on healthcare and the proposal for all hospitals to become FTs by 2014. The status quo is far more risky. The trusts believe that this merger will work and risk will be minimised because:

- the work is being led by clinicians to deliver better health and healthcare
- we are clear about the benefits and we aim to communicate them.
- there are advantages to all three trusts and their local communities.
- we are committed to working with patients, LINKs, the local authority and the wider community to create an organisation that has partnership at its heart.
- we recognise that staff are our greatest asset.
- recognising the cultural differences between the three trusts is important and will drive our organisational development strategy.

**Q: What would be the impact of the merger on the Homerton and why isn't it in the merger?**

The proposals wouldn't jeopardise current partnership working and we aim to strengthen the links we already have – sharing best practice and developing services that complement one another.

In October 2010 it was made clear that a proposal to merge Newham, Whipps Cross and Homerton would not be acceptable to the Homerton Board. A subsequent proposal by Homerton of a staged acquisition of the other two hospitals was considered by the Whipps Cross and Newham boards. Their decision was that a merger with Barts and The London had greater clinical support and had the potential for better clinical and financial benefits.

### **Q: Is this a way of funding Barts and The London's new hospital?**

No. A merger puts all three trusts in a financially stronger position. In fact Barts and the London is in the strongest position to meet the financial requirements of becoming a FT.

### **Q: Won't the new Trust be too big?**

A large organisation brings benefits:

- greater economies of scale and greater buying power
- more opportunities for staff – so we can retain the best
- better sharing of knowledge and information
- removing organisational boundaries to enable networking of services so that patients can receive more care closer to their home.

However we recognise there are challenges too:

- we are developing a new management structure that will ensure each site maintains focus on its key priorities, whilst taking advantage of the opportunities afforded by working in a larger organisation.
- we will work with staff to ensure the three trusts come together as one and see the new Trust as a single entity.

The new organisation is proposed to have eight Clinical Academic Groups (CAGs). Each CAG would have a multi-disciplinary leadership model with a clear governance framework to support their responsibilities and dedicated clinical, research, educational, operational and financial leadership.

## **4. Feedback received about the event**

- *"The event was well explained in simple language"*
- *"First honest public acknowledgement of finance problem"*
- *"It was absolutely fantastic"*
- *"Very useful event"*
- *"I appreciate the more open approach to the financial situation of the existing trusts"*
- *"It was an excellent meeting with excellent speakers. Good questions and very well answered"*
- *"It was very well presented with great clarity"*

## **5. How could we improve the event?**

- *"Send slides in advance so we could formulate better questions"*
- *"Perhaps have a little more detail on the assumption behind the saving target"*
- *"Better use of the microphone"*

## **6. Conclusion**

Dr Lucy Moore, Integration Director, concluded the event by acknowledging the risks of the merger and the importance to balance this with the clinical and financial opportunities that it presents.

There was also acknowledgement that change also brings with it a cost of transition and for a period of time this will involve double running to ensure that service levels are maintained at each of the hospital trusts. Dialogue in this area continues with both NHS London and the Department of Health.

The final remarks were to outline the absolute commitment to working with the wider health and social care economy, including neighbouring hospital trusts, local authorities, local involvement networks and the commissioners of the present and future and to reiterate the invitation to attend the next engagement event on the 3 November. This event is another response to feedback from patients and local partners to understand and debate the integration plans with the Clinical Academic Groups (CAGs) and the corporate workstreams.

## **7. Next steps**

The next steps for the merger include continuing to develop the Full Business Case (FBC) which will be subject to an extensive approvals process in December 2011 including the three trust boards and NHS London, and the Department of Health and the Secretary of State for Health in early 2012. A detailed assessment by the NHS Cooperation and Competition Panel (CCP) will also run in parallel with the decision making process. If we receive approval to merge the earliest time for establishing a new merged organisation is April 2012.

Further discussions with GPs and local authorities have also been arranged over the coming months, and we will continue attend any local community meetings upon request. Views and responses to the merger will be fed into a submission to the CCP and the FBC for consideration during decision-making.

Views and comments, questions, or requests to be kept regularly informed, can be sent to the merger project team by:

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**Write:** Aneurin Bevan House, 81 Commercial Road, London, E1 1RD

**Phone:** 020 7092 5287

**Website:** [www.bartsandthelondon.nhs.uk/proposed-merger](http://www.bartsandthelondon.nhs.uk/proposed-merger)