LONDON BOROUGH OF HILLINGDON

HEALTH AND SOCIAL CARE
OVERVIEW AND SCRUTINY COMMITTEE

2005/6

HILLINGDON PRIMARY CARE TRUST'S FINANCIAL DEFICIT

Members of the Committee

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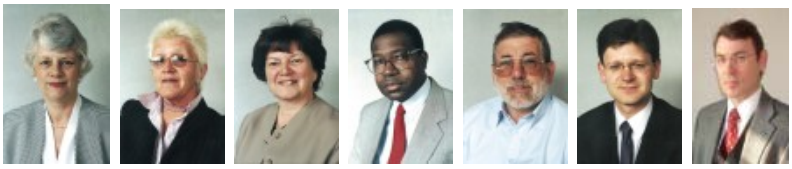

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Chairman's foreword

Since our interim report on this issue, the growing financial difficulties within the NHS have become increasingly high profile. Despite the recent large increases in NHS budgets, it would appear that many NHS Trusts have been unable to maintain financial balance. This issue is particularly one of great concern locally. In the course of this review we have heard that Hillingdon Primary Care Trust (PCT) could post a deficit of over £30 million for 2005/6. It is the PCT with the largest projected deficit, and we have heard that the Department of Health have demanded the PCT bring in external expertise from the commercial sector.

My concern throughout this review has been for Hillingdon residents. I have been clear that local vulnerable people should not receive a reduced health service as a result of a loss of financial control within the Hillingdon health economy. As such, I have sought clarity over the measures proposed by the PCT to achieve financial recovery and have been concerned to hear that both the PCT and Social Services Officers believe these measures could have a negative impact on vulnerable groups and widen health inequalities in the Borough.

Given the rapidly changing nature and complexity of this issue, the Committee cannot be certain of this impact. However, through our recommendations contained in this report we will maintain an ongoing interest in this issue. I look forward to the PCT's financial position improving in a sustainable manner that ensures Hillingdon residents do not have reduced access to health services.

Finally, I would like to thank all those who contributed to this review, including those who gave evidence and advised the Committee in the production of this report. We have not sought to blame individuals or organisations, and I hope this report is seen as a constructive and valuable contribution. As such, I strongly commend this report to all stakeholders in the Hillingdon health economy for serious consideration and, where appropriate, action.

Cllr Catherine Dann

Executive Summary

Hillingdon Primary Care Trust (PCT) is responsible for ensuring Hillingdon residents have access to a range of primary care services and holds the NHS budget for commissioning health services from hospitals and other providers to meet the needs of people living in Hillingdon. Hillingdon PCT recorded a £13.47 million deficit in the financial year 2004/5, leading the Audit Commission to issue a Public Interest Report. The PCT's financial position worsened throughout 2005/6. The 2005/6 month nine position was a forecast deficit of £27.4 million at financial year-end, although this assumes delivery of £11 million of savings, which may not all be achieved.

The North West London Strategic Health Authority (SHA) requires the PCT to reduce its deficit to at least £12 million for this financial year. We understand that this requires the delivery of £24.9 million of savings across the whole of 2005/06. However, given its current position, the PCT are, in effect, required to save nearly 10% of their annual budget in the last few months of the year.

The PCT's interim Chief Executive has led the development of a detailed financial recovery plan. Both Social Services officers and the PCT themselves warn that the recovery plan may have a detrimental effect on vulnerable Hillingdon residents and widen health inequalities within the Borough. The recovery plan may also negatively impact upon Social Services provision and expenditure. However, both Social Services and the PCT agree that it is not possible to predict accurately the impact of the recovery plan and have joint mechanisms in place to monitor the situation.

The exact causes of the PCT's deficit are not clear. However, it is clear that the PCT have been spending more on commissioned services at Hospitals than they originally planned in their budget. While the PCT holds the budget for commissioning hospital services and has a statutory duty to maintain financial balance, it would appear it has limited influence over the level of activity undertaken by hospitals for which it must pay.

Governance and financial management processes at the PCT have been strengthened in an attempt to restore, and maintain, financial balance. The PCT will be acquiring the services of a Director of Recovery who it is hoped will bring wide experience of financial recovery in the commercial sector. This is in addition to the recruitment of a new, full-time, Chief Executive who will be dedicated to Hillingdon PCT.

This report follows on from our interim report and contains more detail. It first sets out the background and context for the review. A summary of the evidence we received, and our conclusions and recommendations arising from this evidence then follows.

In short, we recommend:

Recommendation 1:

That the PCT Chief Executive, or other senior officer, provides the Committee with a monthly update of the financial position of the PCT until the Committee are satisfied the financial position is sufficiently improved. Also, that in their response to this review, which is required by health scrutiny legislation, the PCT provide an action plan covering how they will address the concerns raised in this report.

Recommendation 2:

That all of the PCT's key partners, particularly Hillingdon Hospital and local GPs, should continue to work together and help implement measures to improve the financial position of Hillingdon PCT. To enable the Committee to monitor this recommendation, the monthly report referred to in recommendation one should include information highlighting which Service Level Agreements are over-performing.

Recommendation 3:

That the Committee write to the Department of Health expressing their concern about how the financial deficit was able to reach such a level. In particular, the Committee seek reassurance from the Department of Health about the commissioning rules which appear to offer the PCT few powers to control the level of commissioned activity for which the PCT must pay.

Recommendation 4:

That the PCT Chief Executive and the Council's Director of Social Services and Housing, or their representatives, provide the Committee with the following information on an ongoing basis:

- **i.) steps taken to actively monitor the impact of the recovery plan**
- **ii.) any adverse impact on Hillingdon residents, particularly services for vulnerable people**
- **iii.) any adverse impact on Social Services expenditure**

We strongly recommend that serious consideration be given to amending any measures which are shown to have a detrimental effect on vulnerable residents.

Recommendation 5:

That the work of any senior officer(s) appointed to the PCT, such as a Director of Recovery and turnaround team, is subject to scrutiny and local democratic oversight in line with both the powers and spirit of Health Scrutiny legislation. That the Committee write to the Department

of Health seeking reassurance that any such senior appointees to the PCT should appear before the Committee to explain their role in person.

Recommendation 6:

That the Committee, on behalf of Hillingdon residents, write to the Department of Health expressing deep concern about the arrangements for repaying the deficits from previous years. The Committee strongly feel that the money allocated to Hillingdon PCT in 2006/7 and beyond should be used solely on addressing the health care needs of Hillingdon residents rather than paying back previous financial deficits, and that Hillingdon residents should not be made to suffer as a result of the past lack of financial control within the Hillingdon health economy. If any repayments must be made, we strongly ask the Department of Health to allow these to be structured over several years to allow the reforms led by the new Chief Executive and Director of Recovery to take affect.

1. Background

1.1 Hillingdon Primary Care Trust (PCT) is one of over 300 PCTs which together control over 80 per cent of the total NHS budget.[1] The PCT's annual budget for 2005/6 is £262 million and it employs just over 1,500 people.[2] It covers the same area as Hillingdon Council, and therefore serves a population of approximately 250,000 through 50 general practices, 16 clinics or health centres, and nine mental health facilities.

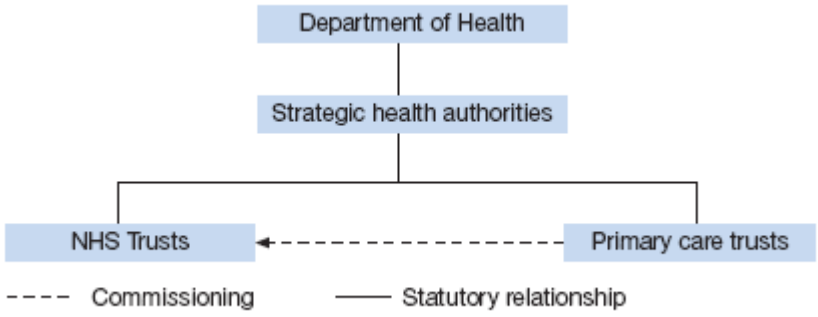
1.2 Hillingdon PCT employs staff who provide a range of community-based services, such as district nursing and health visiting, and holds the NHS budget for commissioning health services from hospitals to meet the needs of Hillingdon residents.[3]

1.3 Hillingdon PCT's most important commissioning relationship is with the Hillingdon Hospital NHS Trust. The PCT spends over 65% of its commissioning budget at Hillingdon Hospital, which in turn provides 80% of the Hospital's income.[4] Hillingdon Hospital is the only acute hospital in the London Borough of Hillingdon and offers a range of services including an accident and emergency department, inpatient treatment, day surgery, and outpatients services. The Trust also provides services at Mount Vernon Hospital in the north of the Borough.

1.4 North West London Strategic Health Authority (SHA) is one of 28 Strategic Health Authorities in England which are responsible for managing and setting the strategic direction of the NHS locally. It is the key link between the Department of Health and local PCTs and Hospital Trusts. North West London Strategic Health Authority is responsible for managing the performance of Hillingdon PCT and Hillingdon Hospital and is tasked with taking action to improve services when they are poor or failing.[5]

1.5 The chart below demonstrates these relationships between the separate NHS organisations.

[1] http://www.nhs.uk/England/AboutTheNhs/Default.cmsx#primarycare
[2] http://www.hillingdon.nhs.uk/financed.html
[3] Hillingdon PCT - Annual Report 2004/5
[4] Hillingdon PCT – 'Reducing Spend On Commissioned Services' - Board Paper 20/09/05
[5] http://www.nhs.uk/England/AboutTheNhs/Default.cmsx#shas



(Source: 'A Guide to the NHS for Members and Officers of Health Scrutiny Committees', Department of Health, November 2003)

1.6 Hillingdon PCT and Hillingdon Council's Social Services Department work closely together as Hillingdon residents' health and social care needs are often closely linked. The boundaries of what constitutes health care and what is social care are not always clear, and Social Services are therefore likely to be affected by the PCT's financial situation and any measures to address the deficit.

2. Context for the Review

2.1 The Committee first identified the PCT's financial situation as a subject for a major review in June 2005. We originally intended to undertake this review in early 2006. However, as the deficit worsened, and new measures were proposed to address the situation, the Committee decided in September to undertake this review as soon as possible and seek clarification over the potential impact of these measures on Hillingdon residents.

2.2 We proposed then to consider a draft full report at our meeting on the 13th December 2005. However, at that meeting it became clear that we did not have the information required to publish a full report on this issue. Instead we decided to hold a further evidence session in January 2006. From the early evidence we received we were clear that the PCT's financial situation and the proposed measures to address it could have a detrimental effect on vulnerable Hillingdon residents. Given the complexities of the Hillingdon health and social care economy we also feared the situation could impact upon Social Services' budget and service provision.

2.3 Given these concerns, we decided to issue an interim report with the following recommendations in December:

Recommendation 1

That in light of the evidence received by the Health & Social Care Overview & Scrutiny Committee, Cabinet note:

1. the seriousness of the financial situation at Hillingdon PCT
2. the possible negative impact on vulnerable Hillingdon residents of actions proposed by Hillingdon PCT to address the financial deficit
3. that Social Services Officers have not yet received the information they need to understand the impact of the proposed actions on Social Services expenditure and provision

Recommendation 2

That Cabinet asks Officers to continue to work with colleagues at the PCT about the uncertain risks to services for vulnerable people and any consequent impact upon local authority expenditure so that, in line with the recommendations of the Audit Commission's Public Interest Report, the Council is fully involved and consulted in NHS planning to address the financial deficit

Recommendation 3

That Cabinet take up this issue, particularly the concerns about the impact of the recovery plan on vulnerable Hillingdon residents with the relevant regional and national NHS bodies

2.4 Cabinet agreed these recommendations without amendment at their meeting on the 20th December 2005.

2.5 The Committee have now held a further evidence session. Although we cannot be certain of the detailed causes of the deficit and the impact of the measures to address it, we are now able to issue a more detailed report on this issue. However, given the nature of this issue we expect, through our recommendations, to maintain an ongoing interest in this subject.

Terms of reference

2.6 Our review sought to investigate:

- The origins of the PCT's large deficit
- Proposed and potential solutions to the deficit
- The impact of such actions on Hillingdon residents, especially the most vulnerable
- The impact and risks to the Council's Social Services
- Lessons on how such a situation can be avoided in the future

Evidence gathering process

2.7 The Committee held three witness sessions detailed below. In addition, we considered a wide range of documents including written submissions from relevant organisations, PCT Board Papers, Audit Commission reports, and Department of Health publications and guidance.

Date of Meeting	Witnesses	Organisation
11th October 2005	Elaine Kerr, Director of Commissioning and Performance Management	Hillingdon PCT
	Andrew Morgan, interim Chief Executive	Hillingdon PCT
29th November 2005	Elaine Kerr, Director of Commissioning and Performance Management	Hillingdon PCT
	Andrew Morgan, interim Chief Executive	Hillingdon PCT

	David McVittie, Chief Executive	The Hillingdon Hospital NHS Trust
12th January 2006	Andrew Morgan, interim Chief Executive Sarah Pond, Chair	Hillingdon PCT Hillingdon PCT

Structure of this report

2.8 A summary of the evidence we received is contained below. This is divided into four main sections: the background of an underlying deficit; causes of the large deficit; the financial recovery plan; and the lessons which could be learnt to avoid a repeat of such financial problems. Our conclusions and recommendations arising from this evidence then follows.

3. Evidence

The history of a growing deficit

3.1 The Committee heard that Hillingdon PCT has had an underlying financial deficit for several years but recorded a significant deficit in 2004/5 for the first time. We heard that every PCT has a statutory duty to keep within its revenue resource limit. Failure to do so results in the accounts being qualified and the PCT being referred to the Secretary of State for Health. To meet this requirement we heard that the PCT was able to achieve financial balance in 2001/2 and 2002/3 through short-term non-recurrent measures. Through further non-recurrent measures, we heard that the PCT was able to limit its deficit to £672,000 in 2003/4. In 2004/5 the PCT could not repeat these measures and recorded a £13.47 million deficit.

3.2 We heard that the requirement to balance its budget each year encouraged short term measures that served to conceal an underlying overspend. Consequently, we were concerned to hear that the PCT found it difficult to engage partners in the local health economy, whose invoices it was required to pay, in addressing these problems as it was recording financial balance and then only a small overspend. We heard from the Strategic Health Authority that the PCT was not on high alert for monitoring by the SHA as it had achieved breakeven in 2001/2 and 2002/3 and then only recorded a small deficit in 2003/4. We therefore heard that such 'quick fixes' may have prevented the underlying, longer-term, problems being acknowledged and addressed.

3.3 We heard that the PCT's financial position continued to worsen significantly throughout the start of financial year 2005/6. On the 20th September 2005 the PCT Board received a finance performance report forecasting an outturn deficit of £23.983 million for the financial year 2005/6. If savings of £7.219 million, at that time unidentified, were not delivered, the paper stated that the deficit could reach £31 million.[6]

3.4 At our meeting on the 12th January 2006 we heard that the month nine position was a forecast deficit of £22.7 million at year-end. However, this assumes delivery of £11 million of forecast savings, which we heard may not all be achieved.

3.5 During this review the Committee have heard about large sums of money and projected overspends and savings. We have therefore always sought to appreciate the scale of the deficit in terms of service provision. The following statistics are useful in that respect. We are advised that £30 million could purchase the following services for example:

[6] Hillingdon PCT – Finance Performance Report - Board Paper 20/9/05

- Over 400,960 flu jabs or
- Over 2,500 nurses on the starting wage or
- Over 766,000 visits to foot clinics or
- Over 650,000 visits to family planning clinics[7]

Hillingdon PCT serves a population of approximately 250,000.

How did the deficit occur?

3.6 Hillingdon PCT, in line with other Primary Care Trusts across England, has received significant increases in funding over recent years as the Government seek to bring health spending up to a level similar to that in other Western European countries. Between 2002/3 and 2007/8 Hillingdon PCT's budget will have risen from £201.5 million to £333.2 million.

PCT allocations[8]

Year	£ million	Increase in real terms	Increase in cash terms
2002/3	201.5	6.4%	9.1%
2003/4	219.8	6.7%	9.1%
2004/5	240.2	6.6%	9.3%
2005/6	262.0	6.4%	9.1%
2006/7[9]	308.0	5.3%	8.1%
2007/8	333.2	5.3%	8.2%

3.7 We have heard that these increases in funding have made a difference to health care. For example, at a national level, the number of people on NHS waiting lists in England is the lowest since data was first collected in this way in 1988.[10] However, we have also heard that while the PCT has received large increases in funding from central government, it has also been unable to limit spending to within this increased budget. In short, spending has increased at a faster rate than the PCT's rising budget.

3.8 To help ensure that financial recovery can take place, and such a situation does not reoccur, the Committee have sought to understand how the deficit arose. We heard that several senior officers at both the PCT and Strategic Health Authority are no longer in post, but we have

[7] Taken from 'What that £30m could buy' *Uxbridge Gazette*, 12th October 2005
[8] Taken from http://www.hillingdon.nhs.uk/financed.html.
[9] Allocations for 2006/07 and 2007/08 are not directly comparable with previous years because there have been significant baseline changes since the last allocation round.
Total increase over current three-year allocation period (2003/0402005/06): £42.2 million (19.2%).
Total increase over next two-year allocation period (2006/07-2007/08): £25.2 million (7.7%).
[10] http://www.dh.gov.uk/PublicationsAndStatistics/PressReleases/PressReleasesNotices/fs/en?CONTENT_ID=4124114&chk=cLM5Q8

been clear that we are not seeking to blame individuals in this review. Our concern has been to try to understand the sources of the overspend so that remedial action can be initiated, and financial balance achieved.

3.9 We have heard that there has been a wide range of cost pressures that have contributed to the PCT's deficit. We heard that some pressures are long standing and have accumulated. One such pressure is the Health Control Unit (HCU) at Heathrow Airport and the cost of treating patients from Heathrow, particularly those with mental health problems. We heard that the PCT will receive £800,000 from central government to cover the cost of the HCU this year, although it does not yet receive funding to cover the additional Heathrow related costs.

3.10 We also heard that new policy initiatives in the NHS have placed a financial burden upon the PCT. Examples include the new General Practitioners' (GPs') contract, new drugs and treatments and the 'Connecting for Health' ICT programme. However, while other PCTs will have also faced such pressures, many have achieved financial balance or recorded much smaller deficits. We are not seeking to blame individuals, and cannot conclude whether governance and financial management processes in the PCT were flawed. However, we heard from the interim Chief Executive at the PCT that he believed new investments had been made without releasing the funds from ceasing other activity. He believed this, and the publication of the Audit Commission's Public Interest Report, demonstrated that financial grip was not as strong as it should have been.

3.11 On the basis of the information received, we believe that perhaps the greatest factor has been the over-commissioning of activity from Acute (Hospital) Trusts. Hillingdon PCT purchases (commissions) both emergency (unplanned) and elective (non-urgent planned) activity from Hospital Trusts. The PCT purchases hospital services from a number of Hospital Trusts, although Hillingdon PCT's most important commissioning relationship is with Hillingdon Hospital NHS Trust. The PCT spends over 65% of its commissioning budget at Hillingdon Hospital and that Hospital receives over 80% of its income from the PCT.[11]

3.12 Significantly, we heard that there has been a large increase in emergency admissions at Hillingdon Hospital in recent years. In 2002/3 there were over 15,000 non-elective (emergency) admissions of Hillingdon residents to Hillingdon Hospital. In 2005/6 this figure is forecast to be over 22,400, a 68.8% increase. The increase in 0-2 day non-elective (emergency) admissions is even greater, from 722 in 2002/3 to 2,325 in 2003/4. This represents a 322% increase from one year to the next. We heard from the PCT that latest forecasts indicate a year-end figure of 4,075 0-2 day non-elective (emergency) admissions for

[11] 'Reducing Spend on Commissioned Services', p.3

2005/6. This would represent an increase of 564% between 2002/3 and 2005/6.

3.13 We found such large increases alarming and sought clarification on how such a dramatic rise could take place, questioning whether the health of Hillingdon residents has suddenly worsened.

3.14 In response, we heard that neither the PCT nor Hillingdon Hospital are certain about why this increase has taken place, but they suspect that it could relate to the success of the Hospital in reducing waiting times at the Accident & Emergency (A&E) Department. As such, they believed that many people visited A&E instead of using out-of-hours GP services. However, we also heard that this theory does not necessarily explain why the number of people **admitted** to Hospital as an emergency increased at such a rate. We were therefore pleased to hear about the strands of work being undertaken by the PCT to analyse information about A&E admissions and to use primary care staff in A&E to prevent hospital admissions. We heard that the PCT are undertaking work that they hope will prevent the need arising for people being admitted to hospital, including the redesign of care pathways. However, we heard that this will not deliver immediate savings.

3.15 Hillingdon PCT pays acute Hospital Trusts for the treatment provided for Hillingdon residents. The PCT & Trusts agree Service Level Agreements (SLAs) covering the terms of the commissioning relationship. Hillingdon Hospital, like all Hospital Trusts, is paid in relation to the amount of work it completes. As the level of work undertaken by Hillingdon Hospital for Hillingdon residents increases, so does the level of income it receives from the PCT. Given the rapid increase in activity highlighted above, we were therefore not surprised to hear that the level of money paid to Hillingdon Hospital has also increased. Indeed, we heard that, based on month nine figures, the PCT's SLA with the Hillingdon Hospital is likely to over-perform by over £5.6 million by the end of 2005/6. The Audit Commission's Annual Audit Letter 2004/5 which we received highlighted that the combined over-performance for all of the PCT's SLAs was £7 million in 2004/5.[12] In short, we heard the PCT paid more to Hospital Trusts than it had originally planned for.

3.16 We heard about the complexities of the commissioning relationship between the PCT and Hospital Trusts. We heard that the PCT holds the budget for providing health services for Hillingdon residents and commissions (purchases) these services from Hospital Trusts. We heard that the PCT has a statutory duty to achieve financial balance each year. However, we also heard that the PCT does not appear to have control over the level of activity at Hospitals for which it must pay. We heard that the PCT can refuse to pay for certain treatments at the margins of NHS activity. We heard that the majority of the increased activity at Hillingdon

[12] Audit Commission - Annual Audit Letter 2004/5, p.9

Hospital relates to emergency treatment, and therefore it would not be acceptable to refuse to provide this activity. However, as stated earlier, we heard that Hospitals are paid according to the level of activity they complete. Given this situation, we heard that there appear to be few incentives for Hospital Trusts to reduce the level of work they undertake. Indeed, we heard that this situation has led to disputes between the PCT and various Hospital Trusts. In particular, we heard that when the PCT attempted to reduce all of their Service Level Agreements by 5% in 2004/5, in line with a 5% reduction across the PCT's whole budget, many Hospital Trusts refused to sign the reduced agreements.

3.17 We heard that the Strategic Health Authority (SHA) is meant to play a key role in managing the relationship between the PCT and Hospital Trusts. However, we heard the PCT did not feel they received support from the SHA when faced with this dispute with the Hospital Trusts. We also note that the initial findings of the turnaround teams sent into the worst financially performing PCTs and Trusts found that in '***some*** cases SHAs were allowing unproductive behaviour between Trusts and PCTs'.[13] Given that the PCT are not in possession of, and have therefore been unable to share, the turnaround team's initial analysis in relation to Hillingdon PCT, we do not know whether this relates to North West London. We have sought clarification on the role of the North West London Strategic Health Authority in the PCT's financial deficit, but did not receive a response to our request for further evidence.

The financial recovery plan

3.18 We originally started this review when the PCT were proposing to cease purchasing all 'non-urgent' elective activity in an attempt to address the financial deficit. We were very concerned about this proposal and heard that this would have meant the PCT temporarily ceasing to purchase activity such as cataract treatment and hip replacements. We then, as now, strongly feel that Hillingdon residents should not have to suffer as a result of what the interim PCT Chief Executive describes as a 'loss of financial control' in the past.

3.19 We were therefore pleased to hear that the PCT's Management Team, led by the interim Chief Executive Andrew Morgan, advised the PCT's Board that it was 'unwise' to implement the previous decision to cease purchasing non-urgent elective care.[14]

3.20 Instead, we heard that the interim Chief Executive led the creation of a completely revised financial recovery plan, containing over fifty different

[13] Department of Health - 'Financial Turnaround in the NHS' – A Report from Richard Douglas, Finance Director, Department of Health, to the Secretary of State for Health, 25th January 2006
[14] Minutes of the meeting of Hillingdon PCT Board on 15th November 2005

proposals. We heard that the interim Chief Executive was critical of the previous recovery plan in place, believing it would not deliver the required savings. We heard that the Strategic Health Authority is demanding the PCT record a deficit of no greater than £12 million (the control total) in 2005/6. The revised recovery plan (contained as an appendix to our interim report) seeks to ensure that control total is met.

3.21 Throughout this review we have been clear that Hillingdon residents should not have to receive a lower level of health care as a result of past financial difficulties at the PCT. We were therefore concerned to hear the concerns of Social Services officers that given the size of the problem faced by the PCT it is extremely difficult to see how the PCT can deliver such a plan without having a significant impact upon some vulnerable people as well as the general population of Hillingdon. Social Services officers told us that they believed in drafting the recovery plan the PCT had clearly sought to continue to deliver agreed strategic priorities where possible. However, Social Services officers feared the size of problem, and the timescale for correcting it, suggest that financial recovery is extremely difficult to achieve without potentially detrimental impacts. Given the month nine financial forecasts we understand that the PCT is required to achieve £24.9 million of savings in the last two months of the financial year if they are to meet even the SHA's control total of a £12 million deficit. We do not see how the PCT can achieve such large savings in such a short timescale without dramatically reducing the level of health care available to Hillingdon residents.

3.22 We support the importance of strong management of public finances, and understand why the SHA are requiring the PCT to reduce the deficit as much as possible. However, we are concerned that this will force the PCT to make short-term reductions to services that undermine the long-term objectives of the PCT, the Government and the Council's Social Services. The recent Government White Paper on health and social care, *Our Health, Our Care, Our Say*, seeks to increase the number of services provided in the community and away from large hospitals. In addition, we heard that the PCT's recovery plan is seeking to save over £14 million by 'reducing inappropriate emergency Hospital activity, attendances and admissions at all Trusts'.[15] Following the advice of Social Services officers we would expect that the achievement of such priorities will require extra investment in community nursing services. However, in stark contrast we have heard that the PCT have actually been reducing the resources available to these services as they seek to meet the rapid spending reductions required by the SHA, including, for example, a vacancy freeze for front-line PCT community services. Earlier in our report we discussed the problems facing the PCT in controlling its expenditure on commissioned services. We fear these difficulties are imposing an extra savings requirement on community services and that

[15] Hillingdon PCT Revised Recovery Plan

these undermine the long-term objectives of reducing hospital admissions.

3.23 Hillingdon PCT and the Council's Social Services Department have been working together to meet the health and social care needs of vulnerable Hillingdon residents. We have heard the concerns of Social Services officers that given this close working, some of the measures in the PCT's financial recovery plan may have a detrimental impact on Social Services provision and expenditure. In particular, we fear that some of the measures may involve a redefinition of certain services from what was previously 'health' care, and the responsibility of the PCT, to 'social' care and the responsibility of the Council. At a national level we have heard there is evidence that the financial problems within the NHS are leading to costs being transferred to local authorities. In particular we have heard that Wiltshire County Council are being affected by measures introduced as the local PCT seeks to save £25 million by the end of the financial year. For example, reductions in community nursing services mean that local authority home carers have been required to undertake some of the tasks previously undertaken by community nursing staff.[16] Given our concerns above about the reductions to Hillingdon PCT's community services, we are extremely concerned to avoid such a situation arising in Hillingdon. We note that Social Services' own finances are also under intense pressure and the department is currently recording its own overspend. We are clear that any reduction in the PCT's deficit should not add to the pressures facing Social Services.

3.24 Despite these concerns, the Committee heard that neither the PCT nor Social Services officers could be certain of the exact impact of the PCT's financial recovery plan. We heard that the precise impact on vulnerable Hillingdon residents and Social Services provision and expenditure is difficult to forecast for this depends, in part, of the success of the PCT in implementing their proposals. However, we heard that the PCT and Social Services have put several measures in place to analyse the impact of the recovery plan. These include joint Senior Management Team meetings, Health & Care Executive Meetings, and the weekly Joint Operational Group. We heard that these meetings would analyse the latest impacts of the recovery plan, and discuss whether any amendments should be made in light of the monitoring.

3.25 We heard about the arrangements in place for the PCT to repay the deficit incurred in 2004/5 and that which is almost certain to occur in 2005/6. We heard that the first call on the PCT's budget for 2006/7 is the repayment of the remaining £4.236 million deficit from 2004/5 plus the 2005/6 deficit. As such, we heard that over £35 million of the PCT's budget in 2006/7 could be spent repaying the deficit rather than on the healthcare needs of Hillingdon residents. We note, and welcome, the

[16] Ray Jones (Director of Adult and Community Services at Wiltshire County Council) - 'Cause and Effect' – *The Guardian*, 4th January 2006

recent publication of two documents from the Department of Health which state that in exceptional circumstances the Department may agree to the recovery of 2004/5 and 2005/6 deficits over more than one year.[17]

How can such a situation be avoided in the future?

3.26 We have been keen to understand how the financial deficit arose so that we can be satisfied that lessons have been learnt and the PCT will return to, and maintain, financial balance. We are not experts in the management of NHS organisations, and it is not the role of the Committee to scrutinise the in-depth workings of the PCT. However, through the Audit Commission's Annual Audit Letter for 2004/5 we have heard about some of the problems that contributed to the PCT's financial position. In particular, we heard about the inappropriate use of incremental budgeting, failure to include realistic estimates of cost pressures within the budget and inadequate detail in budget reports resulting in difficulty in identifying risk areas.[18] The PCT Chair told us of the limitations of the information the Board were previously receiving. We heard about large delays in the PCT receiving information that could be used to manage demand. However, we heard this has now been identified as a priority and the situation has improved.

3.27 We heard that improvements to the PCT's governance and financial management arrangements have now been instigated in an attempt to address the financial deficit. We heard that Governance and Audit Committee meetings at the PCT have been realigned to improve information flow and governance procedures. We heard that new mechanisms for addressing the financial situation had been established, including the Budget Task Force. Zero-based budgeting will be used to devise the 2006/7 budget.

3.28 We heard that the Department of Health have categorised Hillingdon PCT and 17 other NHS organisations with serious financial difficulties as requiring 'urgent intervention'.[19] We have heard that the Department of Health requires these Trusts to appoint a Director of Recovery and supporting turnaround team. We understand that these appointees should be experienced in achieving financial recovery in commercial organisations and that the PCT are required to use one of the large accountancy firms to source these appointments. We heard that although the Department of Health requires these appointments, the PCT must pay their wages. At the time of writing this report (early February) we do not know more detail about the relationships between the Director of Recovery, Hillingdon PCT and Department of Health.

[17] 'Financial Turnaround in the NHS' & Department of Health, 'The NHS in England: the operating framework for 2006/7
[18] Annual Audit Letter, p.11
[19] 'Financial Turnaround in the NHS', p.5

The national picture

3.29 While undertaking this review into a matter of great local significance, the Committee have been aware of the increasing coverage of financial difficulties across the NHS nationally. We have heard that NHS spending has increased rapidly in recent years; at £76.4 billion the NHS budget is now larger than the gross domestic product of 155 members of the United Nations.[20] However, we have also heard that the spending of many NHS Trusts has risen even faster than their budgets. In November we heard that NHS organisations in North West London alone were projecting an £114 million overspend for 2005/6. The Department of Health's own official month six forecasts projected a 2005/6 year-end deficit for the whole NHS of £623 million net and £948 million gross.[21] We have not heard a definitive explanation on how these deficits have occurred in either Hillingdon or beyond. Given their widespread nature, we question whether the deficits can be attributed to the actions of a few individuals or whether, in part at least, they reflect more deep-seated issues.

[20] Patricia Hewitt, Secretary of State of Health, quoted in *The Times*, 26th January 2006
[21] The terms gross and net are used by the Department of Health in 'Financial Turnaround in the NHS' p. 3

4. Conclusions And Recommendations

Background

4.1 This review covers a highly topical issue: one with the potential to have a serious impact on everyone living and working in Hillingdon. In particular, the PCT's financial deficit, and measures taken to improve the financial situation, are likely to impact upon vulnerable groups and the Council's financial plan for coming year. However, the complexity of this issue means that the Committee cannot be certain of the exact nature of this impact. As the position continues to develop we expect that Overview & Scrutiny will need to continue to monitor the issue after this review has finished.

4.2 As we identified at the start of the report, there has been a large increase in funding for the NHS in recent years. In line with increases to other PCTs, the allocations to Hillingdon PCT will rise from £201.5 million in 2002/3 to £333.2 million in 2007/8. This has led to improvements in the local health service including a reduction in waiting lists, for example. However, despite this increased funding we also heard that several other NHS Trusts are also experiencing financial difficulties. In November we heard that NHS Trusts in North West London alone were projecting a combined deficit of £114 million. Spending has therefore been rising at a faster rate than budgets, in some cases much faster.

4.3 As we described at the start of the report, the arrangements for spending the public's money on health care are complex. These arrangements appear to be based on the principle that a single body – Hillingdon Primary Care Trust – makes decisions about health care spending in Hillingdon. In practice, however, we have seen that the situation is more complicated. There appear to be serious limits on the extent to which the PCT can control what is spent within Hillingdon - a case, possibly, of responsibility without commensurate powers. As we discuss later in our conclusions, other NHS bodies from the Department of Health to Hospital Trusts and GPs all appear to have some ability to influence health spending in Hillingdon.

4.4 The Committee were alarmed to discover the extent of the financial problems at Hillingdon PCT, which is projecting the largest financial deficit of all PCTs in the Country. In using our powers under Health Scrutiny legislation, the Committee have sought to understand how the deficit arose and what action was taken to address the deteriorating situation. We also examined the financial recovery plan to better understand its impact. We are clear that Hillingdon residents should not disproportionately suffer as a result of the loss of financial control within the PCT.

4.5 The Committee has held three witness sessions and has successfully brought further information about this issue into the public arena. As such, this review demonstrates the important role played by health scrutiny in increasing democratic oversight and accountability in the NHS and in promoting the interests of Hillingdon residents in health service planning.

Origins of the deficit and lessons learnt for financial recovery

4.6 The Committee are not seeking to blame individuals but we have sought clarity on how the deficit was able to reach such a level, and what action was taken before we began this review in September 2005. We were concerned about the role played by the PCT Board and Strategic Health Authority in monitoring the financial situation and taking action to address this information. During this review we were therefore pleased to hear about the measures designed to improve governance and financial management at the PCT including the realignment of Audit and Governance Committee meeting dates and the adoption of zero-based budgeting for 2006/7. We commend the PCT to continue this work to improve processes in place and address the concerns raised in the Annual Audit Letter relating to information management. We feel that timely and accurate information must be available to PCT management, and the Board must also be prepared to make difficult decisions and address the issues contained in such information. We feel that financial recovery requires such actions to be successfully implemented.

Recommendation 1:

That the PCT Chief Executive, or other senior officer, provides the Committee with a monthly update of the financial position of the PCT until the Committee are satisfied the financial position is sufficiently improved. Also, that in their response to this review, which is required by health scrutiny legislation, the PCT provide an action plan covering how they will address the concerns raised in this report.

4.7 In seeking to understand how the deficit arose, the Committee invited North West London Strategic Health Authority (SHA) to provide information on their role in monitoring the PCT's finances. We are grateful for the information provided, but are disappointed that no senior finance officer from the SHA was able to attend the Committee and that the SHA did not respond to our request for further information. From the information we did receive we can see that regular dialogue was taking place between the PCT and SHA as the deficit grew in 2004/5. We can see that the SHA were therefore aware of the deficit, but we are unsure whether the SHA took any action to address this growing deficit. Similarly, we were concerned to hear of the low level of support the PCT feel they were given by the SHA when attempting to reduce the cost of Service Level Agreements with Hospital Trusts in 2004/5. We were

therefore pleased to hear the change in SHA Chief Executive in September 2004 has had a positive impact on the relationship between the PCT and SHA.

4.8 In seeking to ensure such a situation is not repeated, and understand how the deficit has continued to grow through 2005, the Committee have sought to identify which services have received greater expenditure than originally planned for. Given the limited time available for the review, and that the Committee are not specialists in NHS finances, we are not able to provide a full and detailed commentary on this issue. However, from the evidence we have received, we can clearly see that the over-performance of Service Level Agreements (SLAs) with Acute (i.e. Hospital) Trusts is a key factor i.e. the Hospital Trusts are undertaking more work than the PCT planned for.

4.9 The Committee have heard about the complexities of the commissioning system in place that governs the relationship between the PCT and Hospital Trusts. We have heard with some concern about the limited controls available to the PCT in controlling their expenditure on commissioned activity. We note the large rise in emergency activity and question whether this reflects an increase in ill health among Hillingdon residents. Again we are not seeking to blame individuals or organisations, but strongly commend all partners in the health economy in Hillingdon to acknowledge their role in reducing hospital activity to a level which the PCT can afford, particularly Hillingdon Hospital as the largest provider of services to the PCT. Ultimately, Hillingdon PCT is responsible for meeting its statutory duty to break even and must implement measures to ensure this. It is not acceptable for spending to continue to exceed the resources available to the PCT. However, the PCT cannot improve its financial position alone, and any measures to address this problem must be met with more support from Hospital Trusts than when the PCT attempted to reduce their SLAs for the financial years 2004/5 and 2005/6. The Committee particularly notes the Department of Health's expectation that where activity plans are being breached, 'there is a joint responsibility on the PCT and provider to take action to safeguard access to services and to ensure affordability within the resource and cash limits in place locally'.[22]

Recommendation 2:

That all of the PCT's key partners, particularly Hillingdon Hospital and local GPs, should continue to work together and help implement measures to improve the financial position of Hillingdon PCT. To enable the Committee to monitor this recommendation, the monthly report referred to in recommendation one should include information highlighting which Service Level Agreements are over-performing.

[22] 'The NHS in England: the operating framework for 2006/7'

Recommendation 3:

That the Committee write to the Department of Health expressing their concern about how the financial deficit was able to reach such a level. In particular, the Committee seek reassurance from the Department of Health about the commissioning rules which appear to offer the PCT few powers to control the level of commissioned activity for which the PCT must pay.

Impact of the recovery plan

4.10 The Committee are grateful to the officers who have provided evidence as part of this review and answered our questions. From this information we can see that the scale of the financial problems, and the timescale for correcting them, mean that implementation of the financial recovery plan put in place by the interim PCT Chief Executive is likely to have a future detrimental affect on vulnerable Hillingdon residents. As such, it is also likely to affect Social Services expenditure and provision.

4.11 However, we are unable to be clear on the exact impact of the recovery plan on Social Services users and expenditure as any impact depends, in part, on how successful the PCT are in implementing the recovery plan. Given this uncertainty, it is therefore vital that the recovery plan's impact is regularly monitored and any action taken as required. In particular, we were pleased to hear that weekly meetings of the Joint Operational Group consisting of both PCT and Social Services officers will examine any operational issues resulting from the recovery plan and will enable PCT management to make any necessary amendments to measures designed to achieve financial recovery.

Recommendation 4:

That the PCT Chief Executive and the Council's Director of Social Services and Housing, or their representatives, provide the Committee with the following information on an ongoing basis:

- **iv.) steps taken to actively monitor the impact of the recovery plan**
- **v.) any adverse impact on Hillingdon residents, particularly services for vulnerable people**
- **vi.) any adverse impact on Social Services expenditure**

We strongly recommend that serious consideration be given to amending any measures which are shown to have a detrimental effect on vulnerable residents.

The future

4.12 The Committee note with interest that the Department of Health has asked the PCT to appoint an experienced Director of Recovery and turnaround team from the commercial sector. We welcome the input of those experienced in dealing with such financial problems in large organisations and fresh expertise to deal with the underlying causes of the deficit. This expertise does, however, come at a cost, and we are concerned that the PCT is required to incur what is likely to be significant additional expenditure given their financial situation. The Committee enjoys a good relationship with senior officers at the PCT and Hillingdon Hospital who regularly appear before the Committee and provide information when requested. We believe this enables the Committee to fulfil a vital role in increasing local democratic oversight of the NHS. Taking account of the powers accorded under, and the spirit of, health scrutiny legislation we would therefore hope that any officer appointed to a senior position at the PCT such as a Director of Recovery will continue this practice and outline their work to the Committee in person as and when requested.

Recommendation 5:

That the work of any senior officer(s) appointed to the PCT, such as a Director of Recovery and turnaround team, is subject to scrutiny and local democratic oversight in line with both the powers and spirit of Health Scrutiny legislation. That the Committee write to the Department of Health seeking reassurance that any such senior appointees to the PCT should appear before the Committee to explain their role in person.

4.13 The Committee were particularly interested to hear about the arrangements in place for the PCT to pay back the deficit incurred in 2004/5 and the deficit that is likely to occur in 2005/6. From the evidence received, we understand that the first call on the budget for 2006/7 will be to repay the deficits incurred in previous years. In undertaking this review we have been clear that Hillingdon residents should not have to suffer as a result of what the interim PCT Chief Executive has described as a past loss of financial grip at the PCT. We are therefore extremely concerned that up to £30 million of the PCT's 2006/7 budget may be spent paying back the deficit rather than on the healthcare needs of Hillingdon residents. We welcome the news that in exceptional circumstances the Department of Health may agree to recovery of 2004/5 and 2005/6 overspending over more than one year.[23] Given our comments above, we ask that Hillingdon PCT is treated as an exceptional case. Immediate repayment of such large deficits will have an unacceptable impact on the quality of health care offered to Hillingdon residents, and as such perhaps lead to a lower level of service being offered compared to elsewhere.

[23] 'Financial Turnaround in the NHS' & 'The NHS in England: the operating framework for 2006/7'

Recommendation 6:

That the Committee, on behalf of Hillingdon residents, write to the Department of Health expressing deep concern about the arrangements for repaying the deficits from previous years. The Committee strongly feel that the money allocated to Hillingdon PCT in 2006/7 and beyond should be used solely on addressing the health care needs of Hillingdon residents rather than paying back previous financial deficits, and that Hillingdon residents should not be made to suffer as a result of the past lack of financial control within the Hillingdon health economy. If any repayments must be made, we strongly ask the Department of Health to allow these to be structured over several years to allow the reforms led by the new Chief Executive and Director of Recovery to take affect.

5. Closing Word

5.1 Since completing our evidence gathering, we have heard that Hillingdon PCT will be actively recruiting its own full-time Chief Executive and Andrew Morgan will return to Harrow PCT on a full-time basis. We thank Andrew Morgan for his contribution to Hillingdon PCT. We fully support, and endorse, his belief that the problems facing Hillingdon PCT require the expertise of a full-time Chief Executive. We also thank Harrow PCT for agreeing to release half of Andrew's time to help Hillingdon PCT. As we have been writing this report we have heard that Sarah Pond has announced her resignation from the post of PCT Chair with effect from the 31st March 2006. We thank Sarah Pond for appearing before the Committee during this review and providing a large amount of information. On behalf of Hillingdon residents we thank Sarah Pond for her contribution to Hillingdon PCT over the last six years.

5.2 The Committee recognises that the timescale for this review means that some issues could not be fully addressed, but through our recommendations we seek to ensure an ongoing interest in this important issue. We hope that this report is seen as a constructive contribution to this issue and look forward to meeting the new PCT Chair, Chief Executive, and Director of Recovery and hearing that the financial position of the PCT is improving in a sustainable manner that ensures Hillingdon residents do not have reduced access to health services.

6.

Bibliography and Glossary

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Glossary

A&E – Accident & Emergency

DoH - Department of Health

GP – General Practitioner

HCU – Health Control Unit

NHS - National Health Service

PCT - Primary Care Trust

SHA - Strategic Health Authority

SLA - Service Level Agreement