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Dear Brigitte,

Thank you for sharing the Draft Revised Breakeven Financial Recovery Plan Circular. I certainly welcome the review of these circulars which have been in place for over 20 years and need to reflect the current HSC financial regime and, indeed, the current financial challenges that have developed across HSC, particularly in the last 10 years.

Key Principles

While welcoming this review I do believe it would be helpful to include the Key Principles that underpinned the extant guidance, i.e.:

- Provider should ensure that their services are offered at a cost which reflects efficient use of resources;
- Commissioners should meet the full costs of the level and quality of activity that they wish to purchase (or the full marginal cost where the service is being offered on a marginal cost basis);
- Recurrent service provision should be covered by recurrent resources and, only in exceptional circumstances, financed by non-recurrent resources;
- Providers should only undertake service developments/enhancements which have been approved by commissioners and also ensure that services are delivered to the quality and quantum agreed within the service level agreement;
- Where resources are insufficient to meet the costs of the level and quality of the services desired, commissioners will need to make a judgement of relative priorities.

Current HSC Financial Position

It is my understanding that the projected in year financial deficit across HSC amounts to @ £150m (approximately 1.85%), and it is important to note that this is after taking account of significant in year savings proposals that may not be deliverable on a recurrent basis. Also, this deficit does not include the cost of outstanding pay awards. It is clear, therefore, that every provider Trust is currently carrying underlying deficit significantly in excess of the proposed tolerance level (0.25% of RRL).

It is important to note that the financial challenges faced by Trusts are caused by a range of issues, such as:

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- Lack of directly employed HSC Workforce, resulting in significant service instability and cost premiums to secure professional staff, across all profession but particularly material for Medical and Nursing staff;
- Productivity shortfalls contributed to by the ongoing attempt to deliver services across multiple sites;
- Ongoing reliance on Non-Recurring funding sources;
- Instability within the Independent social care market with resultant increasing tariffs for both Home Care and Care Home placements, exacerbated by increased acuity of the complex discharges from Acute sites and Mental Health Units.

The majority of the challenges set out above can only be tackled on a consistent basis across the region, instead of maintaining a situation where Provider Trusts are literally competing with each other for either staff or community placements, with the obvious long term impact on unit costs.

I would therefore propose, that in order to get HSC into a financially stable position we urgently need to take forward a regional HSC Financial Recovery Programme. I suggest this as if individual Trusts seek to address these material deficits separately it is bound to lead to significantly knock on impact of local measures across boundaries.

Commissioner Involvement

I would suggest the role of the Commissioner needs to be strengthened significantly in both the Stakeholder Involvement and the Elements of a Recovery Plan sections of the Appendix. This is because it is important to recognise that significant elements of the underlying HSC deficit relate to the existence of un-commissioned, unfunded services as well as, in some cases, commissioned, unfunded services. It is essential that the Commissioner is central to developing plans to address these issues.

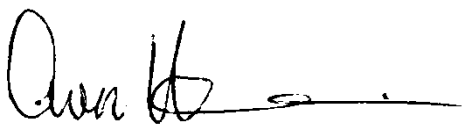
Conclusion

I welcome the proposed revision of the circulars, and would suggest, if HSC was in a stable position it would be a good regime to implement going forward. I would however suggest that an overall HSC Recovery plan is essential at the outset to get to that stable position.

I'm afraid I am old enough to remember the issue of these circulars around the year 2000, and recall it was based on a rebasing of the funding position across all HSS bodies at that time, so that the new regime could be built on stable foundations.

I am happy to discuss.

Yours sincerely



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Cc: Directors of Finance

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