

# Overview of Peterborough and Stamford Hospitals NHS Foundation Trust: Options report

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Peterborough and Stamford Hospitals NHS Foundation Trust provides appropriate quality care and treatment for patients at both Peterborough and Stamford hospitals, but the organisation cannot survive in its present form without a large annual subsidy from the taxpayer.

The Department of Health is currently putting £40 million a year into the trust so it can balance its books and fund all the services that local people need. Half of this cash injection is necessary because the trust has become relatively inefficient and needs to make savings on its running costs to bring it back into line with the performance expected of any NHS foundation trust, and ensure it gets paid for all the work it does. The other half of the subsidy is directly attributable to the costly 35-year private finance scheme (PFI) undertaken by the previous trust management in 2009 in order to build a state-of-the-art hospital. Like any other foundation trust, Peterborough and Stamford is expected to deliver annual efficiency savings. Even if the trust works hard to further improve efficiency in future, the PFI cost will increase by inflation, and the rate at which local commissioners are seeking to move hospital activity out into the community means the trust is faced with large fixed costs it cannot cover. All this makes Peterborough City Hospital among the most expensive NHS hospitals of its size to run, at a time when the NHS needs to offer value for money to ensure that it continues to have the resources to meet the needs of all its patients.

Monitor advised against going ahead with the PFI, and in 2010 found the trust in significant breach of its terms of authorisation on financial grounds. Subsequently we concluded that attempts to resolve the financial problems within the context of the local health economy were not sufficient to tackle the deficit. We sent in experts with health care, financial and restructuring skills (the contingency planning team) to examine the running of the trust and seek a way forward that would safeguard services for patients while sorting out the finances. After consulting with local doctors and hospital managers, the team concluded that the trust was clinically and operationally sound, but not financially viable. One particularly relevant issue is that most of the fourth floor of the new hospital is currently being used as office space, but could be fitted out with additional clinical beds. This space is not needed for any NHS services that are currently commissioned, but making better use of this valuable asset is critical to solving the financial problem.

Over the last few months the contingency planning team has been discussing possible solutions with all the key players in the local health economy, particularly the GPs who commission services from the two hospitals at Peterborough and nearby Stamford. These commissioners have made clear that the majority of the trust's services need to be retained in their current location, including A&E and maternity care. This is non-negotiable, and therefore no reduction in the current level of service or quality of care provided to patients is proposed. Instead, a key part of the proposed solution is that more services will be run by the trust than at present.

After examining dozens of possible options, the expert team advised Monitor that there is no single silver bullet that will solve the trust's financial problems. For example, although there is scope for making greater efficiency savings, the scale of the debt is such that the

trust could not break even and sustain the required quantity and quality of services through a cost-cutting programme alone. Similarly, although there is scope to bring in extra income from turning the fourth floor offices at Peterborough into wards, this would not be enough on its own to reduce the deficit.

However, after careful consideration of all the issues, the expert team believes the trust could tackle its deficit and continue to provide appropriate quality hospital care for the people of Peterborough and Stamford if it adopted a four-point recovery plan. This recovery plan would take five years to implement and involves:

- undertaking a comprehensive programme of cost savings to make the trust more efficient and cut £10 million off the annual deficit;
- inviting bids from other providers to make better use of the under-utilised estate, develop new services and generate extra income;
- facilitating joined-up working across the local health economy through a regional steering group to align the activities of commissioners and providers; and
- seeking government financial support to fund the residual deficit.

Monitor has accepted this analysis as well as the team's recommendation that the trust itself should lead the implementation of this plan over the next few years. The Trust Board has offered Monitor a set of commitments to implement the plan to close the financial gap and secure vital services for patients. Monitor has secured a formal agreement with the trust to ensure that it will:

- deliver the efficiency savings required;
- run a competitive tender exercise to find a business partner (or partners) to develop and fill extra hospital capacity;
- participate in the regional steering group; and
- make regular progress reports on the plan to Monitor.

The trust is aware that if it fails to deliver on these commitments, we retain the power to appoint Trust Special Administrators. However, we also recognise the efforts that the trust's board and leadership have made to work with the experts on a comprehensive recovery plan that continues to provide the services local patients need and acknowledges the crucial role of staff in delivering them. Monitor is confident the current trust board will see this through.

Monitor has decided that the four-point recovery plan represents the best possible answer to an otherwise intractable financial problem. It preserves the existing range of services for local patients while potentially offering the opportunity to develop new treatments and services. We estimate it will take about two to three years to put these plans in place and a further three years to deliver the full benefits.

Much will depend on the response to the tendering exercise that the trust will run. This is a new departure for an NHS foundation trust and will be open to any qualified providers, from other NHS trusts and the independent sector. This may well create a novel business model designed to tackle a unique financial problem, but since all services will remain NHS-funded, it is not privatisation. NHS services will continue to be provided at Peterborough and Stamford for the benefit of local people, and they will be funded by the taxpayer. However the experts advise us that the best prospect of finding a partner for the trust to successfully develop additional services (and therefore generate additional income) is by testing the market.

The plan does not affect the redevelopment of Stamford Hospital, on which the trust now has the 'green light' from Monitor and the CPT to proceed. The new proposal is to make better use of the excellent facilities at Peterborough City Hospital, which currently has 600 beds. The experts believe that around 100 extra beds could be created by converting the fourth floor, and more by building three extra wards outside the main building. In addition, in due course a number of existing beds could be freed up by moving current hospital-based services into the community. This means that over time there is potential at Peterborough to develop a package of new services for patients. Physically there would be space for as many as 300 more beds, although in practice a modern mix of medical services does not easily translate into inpatient beds. Nevertheless if there is genuine demand for such an expansion, the question would be, how could the trust turn such an opportunity into revenue to help pay off the deficit?

The expert team did consider whether the trust itself could develop the fourth floor without going into partnership with another organisation, but ruled this out as impractical. The trust is already expanding some services, for example radiotherapy. However there is unlikely to be substantial extra local demand, since NHS funding is tight and commissioners want to shift activity away from acute hospitals into community settings. Theoretically the trust could also look to let the space as commercial offices or even social care beds, but such tenants would be unlikely to generate enough income. So the most likely organisation to be able to make use of the space is either an existing local NHS-funded provider or a private health care organisation.

However, neither the expert team, nor Monitor, nor any other body has the power to compel another provider to deliver such a project in support of the trust. In addition, the experts sought legal advice which warned against prejudging competition law by appearing to favour any single provider. Hence the team propose that a fair and equitable solution should be sought through an open and competitive tender. Issuing a general invitation to the market also has the advantage of maximising the chances of finding alternative and innovative solutions that have not otherwise been considered.

At first glance, the most prominent local candidate from within the NHS might look like neighbouring Papworth Hospital NHS Foundation Trust. It runs the UK's largest specialist cardiothoracic hospital at Papworth, and is currently seeking private finance to invest in a new 310-bed facility in Cambridge, on land alongside Addenbrooke's Hospital. This deal is subject to approval by the Treasury and is outside the scope of the remit given to the

expert team looking at the future of Peterborough and Stamford NHS Foundation Trust. Nevertheless, the option of hosting Papworth at Peterborough was explored with local clinicians and commissioners. However the Papworth board believes it makes sense on clinical grounds to co-locate with Cambridge University Hospitals NHS Foundation Trust, which is already national centre for specialist treatment and biomedical research, in order to develop market-leading specialist services for the NHS in one place. The Peterborough board does not feel it can offer comparable benefits. Nevertheless, other NHS trusts and foundation trusts may be interested in working with Peterborough and Stamford NHS Foundation Trust.

The tendering exercise will establish the extent of interest within the independent sector for entering into a partnership with the trust. The expert team set out in their report to Monitor that they believe private health has the potential to generate significant additional revenues for the trust. They also suggest this might come through developing a bespoke 100-bed private health unit by converting the fourth floor that is currently used as offices. This could be attractive to medical insurers or prospective private patients from outside the Peterborough area. For example, medical insurers might find it more cost-effective to send their patients to a regional centre of excellence rather than purchase private beds piecemeal from local hospitals. At Peterborough, they could be confident there is a district general hospital with a fully-functioning intensive care department on hand if specialist treatment is required. There is absolutely no question of local patients having to pay for health care as a consequence of this option: it is about exploring the additional potential the private market might offer.

There might be other benefits that a partnership with the private sector could offer in terms of developing new pathways of care, making efficiency savings and improving services to NHS patients. There is already a precedent locally at Huntingdon, where independent health care company Circle was awarded a ten-year franchise to run NHS services at Hinchingsbrooke hospital. Further afield at Nuneaton, the George Eliot Hospital NHS Trust is also looking for a strategic partner from either NHS or independent providers to run the hospital and develop services.

Nevertheless, Monitor does not have a pre-determined view about what could or should happen at Peterborough, and who may or may not go into partnership with the trust. The proposal we have accepted is that the trust will appoint a director and team which will draw up the scope of the tendering exercise and run the process to enable the trust's board to award a contract. The board of Peterborough and Stamford Hospitals NHS Foundation Trust will remain ultimately responsible for ensuring patients receive the NHS services they need and are required by local commissioners.

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