

29 April 2009

The Board of Directors and The Council of Governors
c/o The Trust Secretary
Royal National Hospital for Rheumatic Diseases
Upper Borough Walls
Bath
Avon
BA1 1RL

Dear Ms Knight

I am writing following our most recent meeting with Kirsty Matthews and Stephen Cole on 23 April 2009 at Monitor, which followed the Non-Executive director meetings with a number of governors, consultants and executives on 21 April 2009 and our subsequent discussions with Peter Spencer.

This letter accompanies Monitor's enclosed statutory Notice served under section 52 of the National Health Service Act 2006 (the Act). The Notice and its short annex are self-explanatory. Following Peter Hill's imminent return to Salisbury NHS Foundation Trust and cessation of his secondment to RNHRD (the Trust) as Interim Chief Executive Officer, by the Notice Monitor appoints with immediate effect:

- Kirsty Matthews as Interim Chief Executive Officer, and
- Stephen Cole as Interim Chair.

This letter sets out the background to the decision by Monitor's Board at its meeting on 29 April 2009 to exercise its statutory powers of intervention again in relation to the Trust, following the statutory interventions in August and December 2008. I should be grateful if you would ensure that this letter is shared with your Board of directors and Council of governors at the earliest opportunity.

The Trust Board decided in late 2008 that pursuit of a merger with another organisation best reflected the strategic and other interests of the Trust. The purpose of Monitor's intervention in December 2008 was to ensure that the Trust had the resources and skills necessary to deliver a merger and thereby facilitate and support the long term security of services provided by the Trust.

Since that intervention, the Trust has made progress towards a potential merger principally via the production and circulation of an Information Memorandum, and has received expressions of interest from NHS parties. The Trust is currently appraising the respective approaches with a view to a Board decision in early May and an external announcement later that month. The subsequent timeline for any merger will depend to some degree upon the chosen party, but in any event, finalisation of the process will take some months to execute and inevitably involve some complexity.

Peter Hill, Deputy Chief Executive and Director of Operations of Salisbury NHS Foundation Trust, was seconded to the Trust in September 2008 as Interim Chief Executive Officer. His contract with the Trust has a one month notice period. Salisbury has requested that Peter Hill return to his full time post with effect from 1 May 2009.

This coincides with the Trust's board meeting at which it will continue to consider a preferred merger partner.

In summary, the Trust faces a number of significant and immediate challenges, namely:

- The delivery of a demanding operational plan, which plan was required by Monitor further to the statutory intervention in August 2008;
- A potential merger with another organisation; and
- The negative impact of tariff and market forces factor changes anticipated in the current financial year.

In addition, Monitor considers that the Trust remains in significant breach of its terms of Authorisation on the basis of failure of financial governance: the Trust currently has a Financial Risk Rating of 2 at Quarter 3 under the *Compliance Framework* and is likely to have to provide additional and significant assurance on future trading in order to extend its working capital facility. Monitor continues to receive weekly cashflow information and monthly operating updates. In these circumstances, the Trust is failing to comply with Condition 2 of its Authorisation by which it is required at all times to exercise its functions "*effectively, efficiently and economically*".

Monitor is grateful to Salisbury NHS Foundation Trust for allowing Peter Hill to be seconded to the Trust and acknowledges Peter Hill's role since September last year in assisting the Trust in its recovery plans. Monitor also understands the decision to recall Peter Hill back to his full time role at Salisbury. That said, Peter Hill's imminent departure as Interim Chief Executive Officer of the Trust will create a pivotal gap in the Trust's executive leadership at a time of critical challenge for the hospital.

Under normal circumstances, it is for the Council of governors to appoint a Chairman. Further, it is for the non-executive directors to appoint a Chief Executive, which appointment must be approved by the governors. The circumstances facing the Trust are, however, far from normal, given in particular the previous two statutory interventions, the Trust's ongoing significant breach of its Authorisation and the potential merger. The Trust is at a critical juncture and, given Peter Hill's departure, must have in place within a very short if not immediate timeframe a credible Chief Executive Officer to lead and manage the Trust operationally within the remit of strong and independent strategic leadership from the Chair.

Accordingly, in light of the extreme urgency of the timeframe and of the serious risks and challenge facing the Trust, Monitor's Board concluded that circumstances did not permit the required appointments to be made in the usual statutory way and that regulatory intervention was once again required to help stabilise the Trust, assist in its successful recovery and protect the services it provides for patients.

Monitor's Board therefore determined, having first secured the in principle agreement of the individuals concerned, to intervene formally and make the interim appointments of Kirsty Matthews as Chief Executive Officer and Stephen Cole as Chair with immediate effect, as described in the attached Notice under section 52 of the Act. The notice also terminates the appointment of Stephen Cole as Director of Corporate Strategy and, with immediate effect, any arrangements in place between Stephen Cole and Monitor.

The respective Board of directors and Council of governors will be aware that, by Notice under section 52 of the Act dated 18 December 2008 and with immediate effect, Kirsty Matthews was appointed as Interim Chair of the Trust and Stephen Cole as Director of

Corporate Strategy. By the terms of the enclosed Notice dated 29 April 2009, those previous appointments are immediately terminated.

Yours sincerely

A handwritten signature in black ink that reads "William Moyes". The signature is written in a cursive style and is underlined with a single horizontal line.

William Moyes
Executive Chairman

Enc: Notice dated 29 April 2009 under section 52 of the National Health Service Act 2006