

18 December 2008

Peter Hill  
Chief Executive  
Royal National Hospital for Rheumatic Diseases  
NHS Foundation Trust  
Upper Borough Walls  
Bath  
Avon  
BA1 1RL

**By email**

Dear Peter

I am writing following our meeting on 28 November 2008 at Monitor, that Stephen Hay and I had with Brian Joakim at the Trust on 11 December 2008, and to our various and recent telephone discussions.

At the earlier meeting, we discussed the Trust's recovery plan and how it will be taken forward. We will respond with more detailed comments on the operational aspects of the plan, and also how we will measure progress, in due course.

In the interim, however, this letter accompanies Monitor's enclosed statutory Notice served under section 52 of the National Health Service Act 2006. The Notice and its short annex are self-explanatory. Following Brian Joakim's recent departure from office as Chairman of the Trust, by the Notice Monitor appoints with immediate effect:

- Kirsty Matthews as Interim Chair; and
- Stephen Cole as Director of Corporate Strategy.

This letter sets out the background to the decision by Monitor's Board to exercise its statutory powers of intervention again in relation to the Trust following the intervention in early August this year. I should be grateful if you would ensure that this letter is shared with your Boards of directors and governors at the earliest opportunity.

Following the formal August intervention, the information the Trust has provided has received considerable and careful scrutiny. In summary, our views at this stage are that, whilst the plan identifies many of the risks and some of the actions the Trust may be able to take in mitigation, it does not represent a credible and robust trajectory to financial stability.

The Trust's Finance Director estimated at the meeting on 28 November 2008 that, as early as 31 March 2009, the Trust would need to draw down £500,000 of its £1 million committed facility under a 'base case' scenario. Furthermore, surpluses of £68,000 in 2008/9 and £170,000 in 2009/10 will only be generated if the Trust achieves significant additional cost savings of £333,000 in 2008/9 and £1 million in 2009/10. This level of cost saving represents some 7.6% of the cost base.

We have strong reservations about the delivery of such a programme in the timescale required and serious concerns about its impact on patients. These concerns include, but are not limited to, the Trust's ability to generate funds to undertake investment in the Trust's buildings and to develop and enhance patient services.

As the Trust's banking facility will require renewal on 30 June 2009, and given the forecast liquidity position and costs savings required, Monitor has significant and mounting concerns about the longer term financial security of the Trust.

The production of a robust recovery plan was a requirement following our statutory intervention on 4 August 2008. Given the position set out above, we are of the view that there has been an absence of material progress since that intervention, and that the Trust remains in significant breach of its terms of Authorisation.

We note your Board's decision that a merger with another organisation is its preferred option to safeguard the provision of mandatory services by the Trust. However, at this stage we have increasing doubts that the Trust is being adequately led or has the requisite skills, competencies and experience to deliver a successful merger.

Our current concerns in this specific regard include:

- the absence of a coherent or credible merger project plan;
- very little evidence to date to demonstrate that your Board understands the steps required for a successful merger, how it proposes to deliver these, the transaction risks and possible mitigation;
- limited evidence that your Board understands or has considered how it will execute the key influencing role required for a successful transaction;
- an absence of evidence that your Board has properly considered or fully understands the likely and urgent timetable to completion of the transaction, or indeed, why this timetable is relevant;
- limited consideration by your Board as to risk that the operational plan may not be delivered if the current executive team is also required to focus on the delivery of a successful merger;
- a failure by your Board to take action to obtain external advice; and
- the potentially damaging nature of some of the informal discussions we understand have taken place to date with potential merger parties, without a clear strategic or project plan, or process structure, in place.

Acknowledging the collective responsibility of the Trust Board to ensure compliance with the terms of Authorisation, Monitor considers that the Chair's responsibility for leading the Trust's exercise of its functions effectively, efficiently and economically is critical. Following Brian Joakim's decision to step down as Chairman of the Trust, and given the seriousness of Monitor's concerns as outlined above, my Board decided at its special meeting on 16 December 2008 that formal intervention as set out in the enclosed Notice was urgently required. This is designed to help stabilise the Trust, assist in its successful recovery and, at the same time, delivery of the Board's strategic plans and to protect the services it provides for patients.

Yours sincerely

A handwritten signature in black ink, appearing to read 'William Moyes', with a horizontal line drawn underneath it.

**William Moyes**  
Executive Chairman

Enc: Notice dated 18 December 2008 under section 52 of the National Health Service Act 2006