

Health

Summary

October 2007



Review of the NHS financial year 2006/07

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This report summarises the financial performance of NHS bodies during 2006/07 and comments on the audit and financial issues that arose during the year. Its main focus is the key themes and issues arising from the Auditors' Local Evaluation (ALE) assessments carried out in 2006/07 by auditors appointed by the Audit Commission. The report covers strategic health authorities (SHAs), primary care trusts (PCTs) and NHS trusts. We have only briefly touched on the financial performance of NHS foundation trusts since they are outside of the Commission's audit regime. The report includes some case studies on those organisations that have performed well. The report also looks forward to the key financial management issues arising in 2007/08 and beyond.

The NHS had a financially challenging year in 2006/07. A significant number of NHS bodies ended 2005/06 in financial difficulty, with the NHS overall incurring a deficit of £547 million. The Department of Health made financial recovery one of the top priorities for 2006/07 and implemented an ambitious financial turnaround programme, targeted on those organisations with the most serious financial problems. To aid recovery, SHAs topsliced PCT funds to create local contingencies. These efforts have been successful and in 2006/07 the NHS reported an overall surplus of £515 million. Seventy-seven per cent of NHS bodies achieved year-end financial balance in 2006/07, compared to 67 per cent in 2005/06.

The financial position to date in 2007/08 appears to be equally positive. Recent figures issued by the Department of Health show that 22 organisations are forecasting that they will fail to achieve financial balance in 2007/08, compared to 81 in 2006/07. The Department of Health is forecasting an aggregate surplus of £983 million at the end of the financial year.

Changes were made to the NHS financial regime in 2006/07 to implement the recommendations contained in the Commission's *Review of the NHS Financial Management and Accounting Regime for the Secretary of State*. Changes to the financial regime included the introduction of new arrangements for cash loans; the end of the resource accounting and budgeting regime for NHS trusts; and the introduction of a new capital regime for NHS trusts from 2007/08.

As well as changes to the financial regime, changes were also made to the structure of the NHS. Implementation of the Department of Health's *Commissioning a Patient-led NHS* initiative, led to the number of SHAs reducing from 28 to 10 and the number of PCTs reducing from 303 to 152. In addition the number of ambulance trusts was reduced from

29 to 12. Reorganisation created additional challenges for those NHS bodies affected and it is to the credit of the NHS and its managers that this ambitious change programme was implemented at the same time as the NHS overall achieved financial balance and improved services. The total cost of the redundancy and severance payments arising from restructuring in 2006/07 was £192.1 million; the total savings were £90 million. Further costs will be incurred and savings delivered in 2007/08.

ALE assesses how well NHS trusts and PCTs manage and use their financial resources. It was undertaken for the second time for the 2006/07 financial year. Performance overall improved.

ALE involves auditors making scored judgements on five key themes: financial reporting; financial management; financial standing; internal control; and value for money. The Audit Commission then calculates an overall use of resources (UoR) score. This UoR score is included within the Healthcare Commission's Annual Health Check which consists of two elements: a score for quality of services; and a score for UoR. Monitor (the Independent Regulator of NHS Foundation Trusts) provides the Healthcare Commission with the UoR scores for NHS foundation trusts.

The overarching message is that performance of NHS bodies assessed under the ALE framework is improving. The ALE results show that:

- 69 per cent (231) of NHS bodies demonstrated adequate or more than adequate performance in their UoR (61 per cent in 2005/06);
- unsurprisingly, those organisations unaffected by the recent NHS reorganisation performed better than the new bodies created during 2006/07;
- of the 245 organisations that were in existence in both 2005/06 and 2006/07:
 - 95 bodies improved their UoR score;
 - 136 bodies' UoR score remained the same; and
 - the performance of 14 bodies deteriorated;
- 27 per cent (91) of NHS bodies were judged to be performing well or performing strongly in their UoR (12 per cent in 2005/06);
- six bodies (five PCTs and one NHS trust) achieved the top category of performing strongly in their UoR (2 bodies in 2005/06);
- 31 per cent (104) of NHS bodies failed to meet the minimum requirements and, therefore, were assessed as having inadequate performance (39 per cent in 2005/06). The main cause of this was the 28 per cent of NHS bodies assessed as having inadequate financial standing; and

- in line with 2005/06 the performance of mental health and learning disability trusts was better than that of acute trusts and PCTs.

As well as making an assessment, ALE is also intended to help drive improvement. The upward trend in scores and the overall improvement in NHS financial management indicate that it is having that effect. However, there are still a significant number of bodies that have yet to meet minimum standards and others should take steps to ensure that they improve still further.

i Copies of the full report are available at: www.audit-commission.gov.uk
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