Executive summary

Introduction and Scope

1 Responsibility for the administration of the National Health Service (NHS) in Wales transferred to the National Assembly for Wales on 1 July 1999. This function is exercised through the five Welsh health authorities, which are responsible for commissioning health services for their local resident populations, and through the NHS trusts in Wales as providers of those health services.

2 The Foreword to the NHS (Wales) Summarised Accounts for 1998-99 describes the basis for their preparation under Section 98 of the National Health Service Act 1977, and the background to the individual NHS organisations in Wales. It details recent NHS reforms, the role of the National Assembly, the stocktake of the NHS in Wales and the application of Financial Reporting Standard 11 (Impairment of fixed assets) to the accounts of NHS bodies. It also gives information on the financial performance of Welsh NHS bodies in 1998-99, and specifically reports on the monitoring of NHS trusts against their financial duties.

3 This is the last report that I shall make to Parliament as Comptroller and Auditor General on the NHS (Wales) Summarised Accounts. From 1999-2000, I will audit these accounts in my capacity as Auditor General for Wales and report on them to the National Assembly for Wales.

Issues covered in this Report

4 This report records the results of my audit examination of the summarised accounts for 1998-99, and the results of the audits of the underlying accounts by auditors appointed by the Audit Commission for England and Wales. I have given unqualified audit opinions to all five of the 1998-99 summarised accounts (paragraphs 2.3 – 2.16). I update several issues raised in my report on the 1997-98 accounts (paragraphs 3.2 – 3.24), including the restructuring of the NHS in Wales (paragraphs 3.2 – 3.8).

5 I comment on the overall financial performance of the NHS in Wales (paragraphs 4.3 – 4.7) and on the underlying performance of the individual health authorities (paragraphs 4.8 – 4.10) and NHS trusts (paragraphs 4.11 – 4.18), and the forecast performance of the NHS in Wales for 1999-2000 (paragraphs 4.19 - 4.22).

6 I consider a range of management and internal control issues, including clinical negligence (paragraphs 5.2 – 5.15), corporate and clinical governance (paragraphs 5.16 – 5.19), fraud (paragraphs 5.20 – 5.23) and human resource management (paragraphs 5.24 – 5.28). In addition, I comment on the progress being made with the introduction of resource accounting and budgeting (paragraphs 6.2 – 6.8), on two important areas of asset management within the NHS in Wales (paragraphs 7.2 – 7.7) and on the cost of primary care drugs (paragraphs 8.2 – 8.6).

Main Findings and Conclusions

Findings of the appointed auditors

7 The auditors appointed by the Audit Commission to undertake the audits of the individual NHS bodies in Wales issued unqualified audit opinions in respect of each body. However, for two health authorities and eight NHS trusts the appointed auditors drew attention to the financial deficits reported by those bodies for the 1998-99 financial year (paragraphs 2.6 - 2.9).

8 The auditors expressed concerns to the Audit Commission about delays in the agreement of recovery plans, and also the difficulties that were being encountered by five trusts following their reconfiguration on 1 April 1999 (paragraphs 2.10 - 2.12). Assembly officials assured me that the actions now being taken to revise recovery plans would address these issues (paragraph 2.13).

Restructuring of the NHS in Wales

9 The NHS in Wales underwent considerable structural change during 1998-99. This included the merger of the four ambulance trusts to form the Welsh Ambulance Services NHS Trust, and the abolition of the Welsh Health Common Services Authority and the Health Promotion Authority for Wales (paragraphs 3.2 - 3.8).

10 The process of reform developed in the January 1998 White Paper "Putting Patients First" continued through 1998-99 and several changes in the administration of the NHS in Wales were implemented under the Health Act 1999. These included the introduction of Health Improvement Programmes as the new mechanisms for determining healthcare requirements within each specific health authority area. The Act also provided for the abolition of both the internal market

within the NHS and the function of GP Fundholding, and established the new Commission for Health Improvement to promote good practice and high-quality care across the NHS in England and Wales (paragraphs 3.9 - 3.16).

11 Two new Financial Reporting Standards have been implemented across the NHS in Wales during 1998-99. These required health authorities and NHS trusts to alter the way in which provisions for liabilities, including those for outstanding clinical negligence claims, are reported (FRS 12), and also the basis of valuation of the NHS estate (FRS 11). The impact of this latter change has been significant, resulting in an exceptional one-off impairment charge within the 1998-99 summarised accounts (paragraphs 3.17 to 3.22).

Financial performance of the NHS in Wales

12 Excluding the impairment charge described in paragraph 11, the NHS in Wales reported a total combined deficit for 1998-99 of some £21.8 million. Within this figure, the five health authorities reported a net deficit of £12.1 million for 1998-99, and an accumulated deficit at 31 March 1999 of £36.7 million. The then 26 NHS trusts in Wales incurred a net £9.7 million deficit for 1998-99, and an accumulated deficit at 31 March 1999 of some £17.2 million (paragraphs 4.3 - 4.7).

13 The reported combined annual financial position of the five health authorities in Wales has deteriorated continually since their establishment in April 1996. Deficits have been reported over the last three years, and a further net deficit is forecast in 1999-2000 (paragraphs 4.8 to 4.10 and paragraph 4.19). Similarly, NHS trusts in Wales reported a net deficit for the fourth year running, and are also forecasting a further deficit in 1999-2000. In 1998-99, fourteen NHS trusts failed to break even, which is one of their three key financial objectives. Indeed, 25 of the 26 NHS trusts failed to achieve one or more of these three objectives (paragraphs 4.11 – 4.18 and 4.20 – 4.22). In the five Appendices to this report, I examine the financial performance of the NHS within each of the five health authority areas in Wales (Appendices A to E).

14 The continuing pattern of annual deficits is also reflected in the supplier payment performance of the five Welsh health authorities, which has improved only slightly since 1997-98. Only 85 per cent of bills were paid within the specified 30-day period (paragraphs 4.24 - 4.25). The supplier payment performance of NHS trusts has declined overall from 78 per cent in 1997-98 to 74 per cent in 1998-99 (paragraphs 4.26 - 4.30).

15 In preparation for the transfer of responsibility for the NHS in Wales to the National Assembly for Wales, a Stocktake Report was prepared at the request of the Secretary of State for Wales by the Welsh Office Policy Unit reviewing the overall financial position of the NHS in Wales. This report concluded that there was no single explanation for the financial problems and that deficits of this nature were not unique to the NHS in Wales. The report noted several of the contributory factors to the underlying operational deficits and made a series of recommendations, including the strengthening of the role of the Assembly's NHS Directorate in ensuring that the monitoring of financial performance is integrated with value for money and the delivery of service priorities (paragraphs 4.31 - 4.39).

The management of risk within the NHS in Wales

Clinical Negligence

16 Outstanding provisions for clinical negligence rose by £17 million during 1998-99 to total over £98 million at 31 March 1999. This figure represents the best estimate of the value of outstanding claims where the health bodies concerned have a reasonable expectation of making a payment. In addition, NHS bodies reported a further £116 million of contingent liabilities at 31 March 1999, where there is a possibility rather than a probability of future payments (paragraphs 5.2 - 5.6).

17 The Welsh Risk Pool has continued to play a leading role in promoting effective risk management across the NHS in Wales. Additional Risk Management Standards are being developed specifically for the health authorities, and the Pool has also established a Risk Manager Network to disseminate best practice between the health bodies (paragraphs 5.10 - 5.15).

Fraud

18 The All-Wales Anti-Fraud Working Group established by the former Welsh Office disseminates examples of best practice in the management of fraud. However, due to resource constraints, no Welsh counterpart to the Directorate of Counter Fraud Services in England has yet been established. In its first year, that Directorate conducted a review of prescription charge evasion in England and reported a loss of some £137 million, including fraud of £95 million – no comparative assessment has been made for Wales (paragraphs 5.20 - 5.23).

Human resource management

19 The recent period of reorganisation and restructuring of the NHS in Wales has placed particular importance on the management of human resources by health bodies. Arrangements for personnel affected by NHS trust reconfiguration remained the responsibility of the NHS trusts themselves and, although guidance was issued by the former Welsh Office, I noted that the terms and conditions of redundancy packages and other arrangements adopted by NHS trusts varied widely (paragraphs 5.24 - 5.26). The implementation of the European Working Times Directive and the additional costs of staffing hospitals over the Millennium period will affect the financial performance of NHS bodies in the 1999-2000 financial year (paragraph 5.27).

Resource Accounting and Budgeting

20 In line with the government-wide Resource Accounting and Budgeting initiative, the Assembly will be required by the Treasury to consolidate the accounts of the five Welsh health authorities into its own annual Resource Account from the 2000-01 financial year. For this consolidation to be possible, changes will be required in the way the heath authorities account for their fixed assets. The appointed auditors will also need to issue a specific regularity opinion on the accounts of the health authorities, in line with best practice, and I note that this is to be made mandatory from the 1999-2000 financial year (paragraphs 6.2 - 6.7).

21 It is likely that the consolidation boundary for the Assembly's resource accounts will be extended over the next few years to include other bodies such as NHS trusts. As Auditor General for Wales, I intend to monitor developments in this area closely (paragraph 6.8).

Asset Management

Public Private Partnerships

22 The implementation of Public Private Partnerships within the NHS in Wales has resulted in some 15 contracts to date, with a total capital cost of some £33 million. The majority of these projects are relatively small, although a new hospital project in Baglan has recently been approved and another in Cardiff is currently under negotiation (paragraphs 7.2 - 7.4).

Use of surplus land

23 The NHS in Wales occupies an estate totalling some 1,100 hectares, with an existing use value of £1.1 billion. Of this, 51 properties covering an area in excess of 260 hectares, with an existing use value of around £96 million are considered surplus to existing NHS requirements. A disposal programme is underway, which is expected to yield some £23 million by 2003. As Auditor General for Wales, I intend to review this area as part of a wider value for money study on the management of the NHS estate (paragraphs 7.5 - 7.7).

Cost of primary care drugs

24 The gross cost of prescribed drugs in Wales in 1998-99 amounted to some £318 million. This was offset partially by patient charge income of some £22 million in the year, giving a net cost to the Assembly of some £296 million. The annual cost of prescribed drugs in recent years has increased at a rate greater than inflation, and the main cost drivers are the number of patients, morbidity rates, the availability of drugs to treat this morbidity and prescribing practices. The Assembly does not have responsibility for the UK-wide pharmaceutical price regulation scheme (paragraphs 8.2 – 8.4).

25 The Assembly Secretary for Health and Social Services has announced the setting up of a 'Task and Finish Group' to consider the scope for improving the efficiency and effectiveness of prescribing in Wales, within the framework of the Assembly's powers and responsibilities. The Group will report in June 2000 and, as Auditor General for Wales, I will review its recommendations as part of my work on the 1999-2000 Summarised Accounts (paragraphs 8.5 – 8.6).