



National Audit Office

Financial Management in the NHS: Report on the NHS Summarised Accounts 2007-08

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SUMMARY

1 The National Health Service (NHS) had a surplus of £1.67 billion in 2007-08, representing approximately two per cent of total available resources. At the start of the financial year, the Department set the NHS the target of delivering a combined surplus and contingency of around £0.9 billion. During the year the contingency was not required and the surplus grew as a result of NHS organisations exceeding savings plans and a reduction in the price of generic medicines. The surplus has been carried forward into 2008-09 and the Department has committed to making it available to the NHS for spending in future years.

2 A surplus was planned so that the NHS would have the financial headroom to provide flexibility to respond to future financial pressures or changing priorities. A key change from 2006-07, when a surplus of £515 million was reported, is that in 2007-08 only 11 of 340 NHS organisations, or three per cent, reported a deficit (2006-07: 22 per cent reported a deficit). In 2006-07 the surplus was concentrated in the Strategic Health Authorities, which are administrative bodies, with the Primary Care Trust and NHS Trust sectors remaining in deficit. All sectors are now in surplus and Audit Commission evaluations found that the quality of financial management at individual NHS organisations improved during 2007-08. The Healthcare Commission has also reported in its Annual Health Check that the quality of the services provided by the NHS improved in

2007-08. NHS staffing figures are collected on an annual basis covering the year to September; the latest available figures show that staffing levels remained stable in the year to September 2007, but non-emergency hospital procedures increased by five per cent, and the number of consultations at GP practices increased by two per cent.

3 The NHS planned for a level of surplus to provide financial stability, ensuring that the system could absorb cost pressures that may emerge during the year without having to make short term savings to cover them or risking a slip back into deficit. The growth in the surplus in year meant individual organisations were faced with a choice of increasing spending or retaining the surplus to carry forward for future years. With the expected level of progress being in line with national healthcare targets, NHS organisations judged that running such a surplus was unlikely to threaten delivery against those targets.

4 The Department and the NHS are facing a number of challenges for 2008-09, and the surplus generated and better financial management should, if maintained, help with the financial implications of meeting them. There is a focus on giving the NHS more independence from central control, through increasing the number of NHS Trusts attaining NHS foundation trust status, and a new NHS performance regime should provide more incentives for NHS organisations to become more effective at a local level. The recommendations in Lord Darzi's NHS Next Stage Review will, when implemented, introduce changes to the financial regime, including making quality of care a factor in how providers of NHS healthcare are funded. These and other changes will have a direct financial impact on the NHS.

5 This report looks at the financial performance of, and financial management in, the NHS during 2007-08. It also explains some of the issues which are likely to provide financial challenges for the NHS in 2008-09 and beyond. Where the report refers to the performance of the NHS it covers the performance of Strategic Health Authorities, Primary Care Trusts and NHS Trusts, as reported in the NHS summarised accounts. The report also contains an analysis of the financial performance of NHS foundation trusts; the text makes clear where the commentary is referring to both the NHS sectors and the foundation trust sector.

Conclusion

6 All government departments have to manage their spending against their available resources. Delivery of a surplus or a deficit is an indicator of how well they have managed their resources. Delivery of a surplus is not, however, the only indicator. Good financial management is also about meeting delivery targets within the resources available. The NHS surplus of £1.67 billion in 2007-08 was considerably in excess of the planned surplus. In terms of delivery of healthcare, however, the surplus reflects good resource utilisation rather than a failure to deliver. The NHS was able to make good progress against its national healthcare targets set out in the NHS Operating Framework whilst delivering more cost savings than had been planned. The NHS also provided more healthcare activity in 2007-08 than in previous years, and the quality of that healthcare as rated by the Healthcare Commission improved.

7 The increase in the surplus has coincided with an improvement in the standard of financial management in the NHS. Evidence collected as part of the Audit Commission Auditors' Local Evaluation shows that almost double the proportion of NHS organisations were performing well or strongly in financial management compared to 2006-07. In particular, there was more evidence of financial plans being linked to strategic objectives, and that senior managers and clinicians were more engaged in managing performance against budgets. Nevertheless, the surplus was significantly higher than initially forecast. Although the surplus funds have remained within the NHS, the Department's intention for 2008-09 is that the accumulated balance should be retained at the same level as at the end of 2007-08. The surplus funds generated in 2007-08 are, therefore, not planned to be spent by the NHS until at least 2009-10.