



National Audit Office

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Department of Health

# **Securing the future financial sustainability of the NHS**

Detailed methodology

JULY 2012

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## Detailed methodology

1 This document accompanies the National Audit Office's report on *Securing the future financial sustainability of the NHS*. It outlines the methods used in the course of our examination and supplements the summarised methodology contained in Appendix One of the report. The main elements of our fieldwork took place between January 2012 and May 2012.

### Scope

2 This study looks at the financial sustainability of the NHS commissioners and providers of acute, community and mental health care, these include:

- 10 strategic health authorities (in 4 clusters);
- 151 primary care trusts (in 50 clusters);
- 143 NHS foundation trusts; and
- 107 NHS trusts (including NHS Direct).

3 Our methodology was designed to obtain an overview of the financial sustainability of NHS commissioners and the NHS trusts and NHS foundation trusts, which ensure access to secondary and tertiary healthcare services. Our methodology involved structured interviews with key stakeholders; a census of primary care trusts (PCTs) clusters; analysis of underlying financial information; and visits to eight trusts and eight PCT clusters. We selected these eight case examples to help us understand how trusts are approaching the challenge of achieving financial sustainability. They are not intended to be representative of the population as a whole.

### Methodology

4 The methods used in this report were:

- analysis of trust financial data;
- analysis of Department of Health financial data;
- census of all 50 PCT clusters;
- structured interviews with strategic health authorities;
- structured interviews with key stakeholders;
- visits to NHS trusts; and
- visits to PCT clusters.

## Analysis of trust financial data

5 The financial data we used was:

- audited year end accounts data, and unaudited quarterly accounts data returns, made to the Department of Health by all NHS bodies except foundation trusts; and
- audited year end accounts data, and unaudited quarterly financial data returns made to Monitor by all foundation trusts.

6 We used the data to calculate measures of financial sustainability across the population of NHS bodies, current and over time. Our analysis included:

- indicators of financial sustainability based on some of the tests Monitor applies to applicants for foundation trust status
- comparison of other key measures (including income, spending, debt and liquidity, regional performance and performance over time)
- comparison of income and spending against plan.
- surplus and deficit:
  - surplus and deficit figures for NHS foundation trusts used in the report are the net surplus or deficit before net impairments. This treatment matches the way Monitor report in their annual review of NHS foundation trust consolidated accounts; and
  - surplus and deficit figures for NHS trusts used in the report are the net surplus or deficit before net impairments, adjustments for IFRIC 12<sup>1</sup> and donated assets. This treatment matches how the Department report surplus and deficit figures for NHS trusts.
- Earnings before interest, tax, depreciation and amortisation (EBITDA):
  - EBITDA figures for NHS foundation trusts are calculated from unaudited quarterly returns. EBITDA figures for NHS trusts are calculated from audited financial data.

1 NHS trusts and NHS foundation trusts have adopted International Financial Reporting Standards (IFRS) since 2009-10. As a result, private finance initiative transactions which meet the IFRS Interpretations Committee (IFRIC) 12 definition of a service concession, are accounted for as “on balance sheet” transactions. The IFRIC 12 adjustment reflects the timing difference for revenue charges between those from the “on balance sheet” treatment and those from the former “off balance sheet” treatment prior to the adoption of IFRS.

## Analysis of Department of Health financial data

- 7** We conducted analysis of Department of Health data to understand:
- how much additional support is provided to trusts and the different routes this support takes; and
  - the impact on trusts' surplus or deficit without additional support.
- 8** Our analysis included:
- analysis of additional support for trusts that strategic health authorities (SHAs) recorded in 2011-12;
  - analysis of the public dividend capital that the Department has provided to trusts since 2006-07; and
  - analysis of the working capital loans and capital investment loans that the Department has provided to NHS trusts and NHS foundation trusts.

## Census of all 50 primary care trust clusters

- 9** We conducted a census of PCTs to ascertain the amount of financial support they had given to trusts. This kind of support is not always obvious in a trust's balance sheet and could not be understood by looking at accounts data alone, but is key information in understanding if a trust is independently sustainable. It can take the form of direct support, for example extra funding to cover a deficit, and indirect support, for example, a PCT providing transitional support to relieve financial pressures or to support business change. The financial data we collected was unaudited.
- 10** We designed and refined the questionnaire through consultation both internally and with the Department and through piloting with the PCTs we visited for our case studies.
- 11** We sent the Excel-based questionnaire by email to the chief executives of all PCT clusters (151 PCTs clustered into 50 groups) in England. We requested that the individual signing off the information should have sufficient authority to speak for the PCT cluster (such as the finance director). We received responses from 45 of the 50 PCT clusters (90 per cent).
- 12** The census helped us to build an understanding of the types of additional funding and the mechanisms used to support trusts and PCTs. Responses varied in detail, and we requested additional information from the PCT cluster to support our judgement as to whether amounts PCTs paid trusts should be counted as other non-recurrent funding or excluded.

**13** We checked that information about financial support PCTs provided was consistent with answers to follow-on questions in the census. We included data from the Department, removing any financial support that was double counted. Where possible we checked responses to other evidence including public board papers or obtained confirmation from SHAs. We have also shared schedules of direct and non-recurrent funding with the Department, which asked SHAs to confirm the reasonableness of the data.

### **Structured interviews with strategic health authorities**

**14** We carried out structured interviews with the finance directors of the four SHA clusters and the heads of finance for the underlying SHAs as appropriate. Some of these interviews were carried out face to face and some via telephone.

**15** This supported our understanding of the SHA perspective on:

- the financial health of the trusts in its region;
- the additional support these trusts have received;
- the key issues impacting each trust;
- the progress of the trust to foundation trust status; and
- the financial health of the foundation trusts in its region.

### **Structured interviews with key stakeholders**

**16** We carried out structured interviews with the Department and Monitor to gain their perspective on NHS financial sustainability.

**17** We spoke to relationship managers at Monitor to discuss further the situation of any NHS foundation trusts that currently had a risk rating of two or less. Financial risk ratings are allocated by Monitor using a scorecard which compares key financial information across all NHS foundation trusts. Those given a risk rating of two or less have been assessed by Monitor as potentially being at risk of breaching the financial terms of their authorisation. We discussed the problems and challenges facing these trusts and the potential solutions.

**18** Similarly, we met with the Department to discuss their monitoring of the performance of the NHS trusts in the foundation trust pipeline.

## Visits to NHS trusts

**19** We conducted case studies with eight trusts across England and their lead commissioners in order to provide context to the findings of our data analysis and census. In selecting our sample for our case studies we used our analysis of Monitor and Departmental data to collate a list of eight trusts in a range of financial positions with which to conduct some more in-depth analysis. We wanted to understand why some trusts had healthy financial positions whilst others were struggling, sometimes side by side. We selected our case study trusts on a mix of criteria including, for example, whether they are a teaching hospital, serving a small local population, or a hospital with a private finance initiative; in order to visit hospitals with a range of financial performance operating in different circumstances.

**20** We carried out semi-structured interviews face to face with senior managers at eight trusts:

- Heatherwood and Wexham Park Hospitals NHS Foundation Trust;
- Frimley Park Hospital NHS Foundation Trust;
- South London Healthcare NHS Trust;
- South West London & St Georges Mental Health NHS Trust;
- Peterborough and Stamford Hospital NHS Foundation Trust;
- Bedford Hospital NHS Trust;
- South Tyneside NHS Foundation Trust; and
- Portsmouth Hospitals NHS Trust.

**21** In these interviews we collected further financial data, including future projections and sought to understand the context behind each trust's performance, including the trust's relationships with other trusts in the area and their main commissioners and strategic health authority. We considered the challenges faced by both struggling and successful NHS bodies, to understand the issues faced by financially challenged organisations, and the distance between the most and least financially resilient bodies.

## Visits to primary care trust clusters

**22** We carried out semi-structured face to face interviews with senior managers at the eight PCT clusters which were the lead commissioners for our case study trusts. These interviews allowed us to gain a wider perspective on the financial environment of our case study trusts. We also piloted our PCT census with these PCT clusters.

**23** These interviews were broadly structured to support our understanding of:

- NHS bodies' financial performance, both collectively and individually, against key measures of financial sustainability including outturn surplus or deficit against forecast and year to date position, debt and liquidity;
- how much ground there is to be covered by challenged organisations, and the distance between the most and least financially resilient bodies;
- the actions that can be taken by SHAs to support trusts and PCTs, and how far organisations have received non-recurrent financial support; and
- the key risks and obstacles for trusts and PCTs, to achieving financial sustainability.

**24** We carried out semi-structured face to face interviews with senior managers at eight PCT clusters:

- Cambridge and Peterborough PCT Cluster;
- Greater Manchester PCT Cluster;
- NHS South of Tyne and Wear PCT Cluster;
- Bedfordshire and Luton PCT Cluster;
- South East London PCT Cluster;
- South West London PCT Cluster;
- Southampton, Hampshire Isle of Wight and Portsmouth PCT Cluster; and
- NHS Berkshire PCT Cluster.