



National Audit Office

**REPORT BY THE
COMPTROLLER AND
AUDITOR GENERAL**

**HC 590
SESSION 2013-14**

18 JULY 2013

Department of Health

2012-13 update on indicators of financial sustainability in the NHS

Headlines

What this report is about

1 The National Audit Office last reported in July 2012 on *Securing the future financial sustainability of the NHS*.¹ What we found was that the NHS as a whole delivered a surplus of £2.1 billion in 2011-12, but that within that total there was significant variation in financial performance. In particular, some organisations in difficulty had been given additional financial support through both direct financial support and additional non-recurrent funding.

2 This update focuses on the financial sustainability of the NHS trusts and foundation trusts that provide community, secondary and tertiary health services, and on the primary care trusts (PCTs) that commissioned those services up to the end of 2012-13. Our analysis reconfirms what we found last year. Strategic health authorities, PCTs, NHS trusts and foundation trusts had a combined surplus of £2.1 billion in 2012-13. In total, therefore, there was sufficient money in the health service to make ends meet. As last year, however, there was a substantial gap between the trusts with the largest surpluses and those with the largest deficits. There is a similar variation between local health economies. We found that some regions were in overall surplus, while others were not. The differences are most marked in London, where PCT clusters in parts of west London had some of the largest surpluses, whereas outer north-east London had one of the largest deficits.

3 As in 2011-12, trusts in difficulty once again relied on cash support from the Department of Health (the Department) or non-recurrent local revenue support from strategic health authorities and PCTs. We concluded a year ago that it was hard to see that this approach would be a sustainable way of reconciling growing demand with the scale of efficiency gains required within the NHS, and that, without major change affecting some providers, the financial pressure on them would only get more severe. This conclusion remains.

¹ Comptroller and Auditor General, *Securing the future financial sustainability of the NHS*, Session 2012-13, HC 191, National Audit Office, July 2012.

4 At the end of the year there were still 100 NHS trusts that had not achieved foundation trust status. We reported on *Achievement of foundation trust status by NHS hospital trusts* in October 2011, and concluded that there were at least 20 of these trusts that were not financially or clinically viable in their current form.² The NHS Trust Development Authority no longer expects all NHS trusts to achieve the original target of gaining foundation trust status by March 2014. Nonetheless, the risk that NHS trusts will not maintain their planned trajectory to foundation trust status increased substantially in 2012-13. The risks are greatest among acute trusts.

5 This is a period of major transition for the NHS as NHS England and clinical commissioning groups take over, from strategic health authorities and PCTs, the responsibility for commissioning health services. We plan to repeat our analysis next year, when new commissioning arrangements will have been operating for 12 months.

The impact of additional financial support

6 The number of foundation trusts and NHS trusts reporting a deficit has fallen from 31 at the end of 2011-12 to 25 at the end of 2012-13.³ However, the underlying position is that some NHS trusts may be breaking even only because they are receiving additional local revenue support from strategic health authorities and PCTs. Without extra financial support, the picture is reversed: 43 trusts may have been in deficit in 2011-12, and 44 in 2012-13. The amount of non-recurrent financial support given to trusts has also increased, from £123 million in 2011-12 to £203 million in 2012-13.⁴ Fifteen of the 23 trusts receiving support in 2012-13 also did so in 2011-12.⁵

7 In addition to providers, there were also some commissioners that received non-recurrent financial support. In 2012-13, there were 12 PCTs that received a total of £157 million in additional funding for strategic change and financial support. Some of this money was provided directly by the strategic health authority, and some was provided by redistributing available funds between PCTs in the same cluster. It is not yet clear how far, in future, clinical commissioning groups will redistribute local funding in a similar way.

2 Comptroller and Auditor General, *Achievement of foundation trust status by NHS hospital trusts*, Session 2010–2012, HC 1516, National Audit Office, October 2011.

3 We have included 20 foundation trusts in this total. West Midlands Ambulance Trust reported a deficit of £0.2 million for the three months during which it was a foundation trust (and Monitor therefore includes it in a total of 21 trusts reporting a deficit), but it achieved a surplus for the year as a whole.

4 Under the terms of the franchise risk agreement relating to Hinchingbrooke Healthcare NHS Trust with Circle, additional funding up to a value of £5 million is covered from Circle's own resources. In 2012-13, no additional NHS funding was required as a consequence of this agreement and Hinchingbrooke Healthcare NHS Trust received £3.5 million franchise funding from Circle. This amount is not included in the £203 million total. For more detail on the franchise, see Comptroller and Auditor General, *The franchising of Hinchingbrooke Healthcare NHS Trust*, Session 2012-13, HC 628, National Audit Office, November 2012.

5 Barts Health NHS Trust was created on 1 April 2012 following the merger of Barts and The London NHS Trust, Newham University Hospital NHS Trust and Whipps Cross University Hospital NHS Trust.

The performance of NHS trusts and foundation trusts

8 The financial performance of NHS trusts and foundation trusts should be considered in the context of a period of little to zero growth in funding for NHS services over the last two years. Measured by the total surplus or deficit of hospital trusts, financial performance for the NHS appears stronger in 2012-13 than it did in 2011-12. However, there are signs of increasing pressure. A key underlying measure of sustainability, the average EBITDA margin (earnings before interest, tax, depreciation and amortisation as a percentage of income), has been decreasing over the last three years.

9 There are marked differences between trusts that are foundation trusts and those that are not:

- Foundation trusts have a consistently higher average EBITDA margin than NHS trusts.
- Average surpluses in foundation trusts have risen slightly.
- Among NHS trusts, average surpluses rose slightly between 2011-12 and 2012-13 when non-recurrent support is included. When non-recurrent support is taken out of the calculation, NHS trusts might have had an average deficit, which increased from £0.8 million in 2011-12 to £1.0 million in 2012-13.

Foundation trusts in breach of their terms of authorisation

10 Among foundation trusts, the median financial risk rating worsened between 2010-11 and 2011-12, and stayed broadly at the same level in 2012-13. The number of foundation trusts in breach of their terms of authorisation increased steadily throughout 2011-12 and 2012-13. At 31 March 2013, there were 19 foundation trusts (13 per cent) in breach.

The performance of primary care trust clusters

11 We have mapped surpluses and deficits by PCT cluster to show the financial health of local health economies as a whole. This highlights a number of clusters facing particular financial pressure, for example in north-east London and the east of England.

How to read the report

12 The update consists of a series of annotated graphics, each of which has a short explanatory note:

- Part One explains how NHS bodies are funded, and details the extent of additional support given to NHS providers and commissioners.
- Part Two assesses, using different measures, the sustainability of individual trusts. These analyses show the effect of including, or possible effect of excluding, additional non-recurrent financial support.
- Part Three focuses on the most challenged NHS organisations, particularly NHS trusts in deficit and foundation trusts in breach of their terms of authorisation.
- Part Four combines data for providers and commissioners to look at the financial sustainability of local health economies. We have grouped NHS bodies into PCT clusters in order to map different indicators of financial health.

Technical notes

13 There are some caveats that need to be recognised when reading the data:

- Two trusts became foundation trusts during 2012-13: one on 1 April 2012 and one on 1 January 2013. We have included these trusts, where appropriate, in totals for foundation trusts. This has the effect of treating them as though they had been a foundation trust all year.
- All figures are quoted in absolute terms as reported, and are not adjusted for inflation.
- As in the National Audit Office's report last year, surplus or deficit figures for NHS trusts match the way the Department of Health reported them in *The Quarter* (the Department's quarterly account of how the NHS is performing at national level against the requirements and indicators set out in the NHS Operating Framework 2012-13). This means that the net surplus or deficit is reported:
 - before net impairments;
 - before the impact of absorption accounting for bodies which merged with or were acquired by other organisations;
 - before additional revenue charges associated with bringing PFI assets on to the balance sheet, due to the introduction of IFRS accounting in 2009-10 (IFRIC 12); and
 - before the impact of changes in accounting for donated assets and government grant reserves.

These adjustments mean that the surplus and deficit figures for NHS trusts in this report differ from some of the analyses used in the Department of Health's annual report and management commentary for 2012-13, where the figures are reported in a number of ways, including after the adjustments shown above and any other related consolidation adjustments.

- As in the National Audit Office's report last year, surplus and deficit figures for foundation trusts match the way Monitor report them in its annual review of NHS foundation trust consolidated accounts. This means that the net surplus or deficit is reported:
 - before net impairments;
 - before the impact of absorption accounting for bodies which merged with or were acquired by other organisations;
 - after the impact of incurring additional revenue charges associated with bringing PFI assets on the balance sheet due to the introduction of IFRS accounting in 2009-10; and
 - after the impact of changes in accounting for donated assets and government grant reserves.