



National Audit Office

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COMPTROLLER AND
AUDITOR GENERAL**

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18 JULY 2013

Department of Health

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

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National Audit Office

Department of Health

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

Report by the Comptroller and Auditor General

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Amyas Morse
Comptroller and Auditor General
National Audit Office

17 July 2013

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 that commissioned those services up to the end of 2012-13.

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This report can be found on the
National Audit Office website at
www.nao.org.uk/NHS-sustainability-2013

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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.

Part One

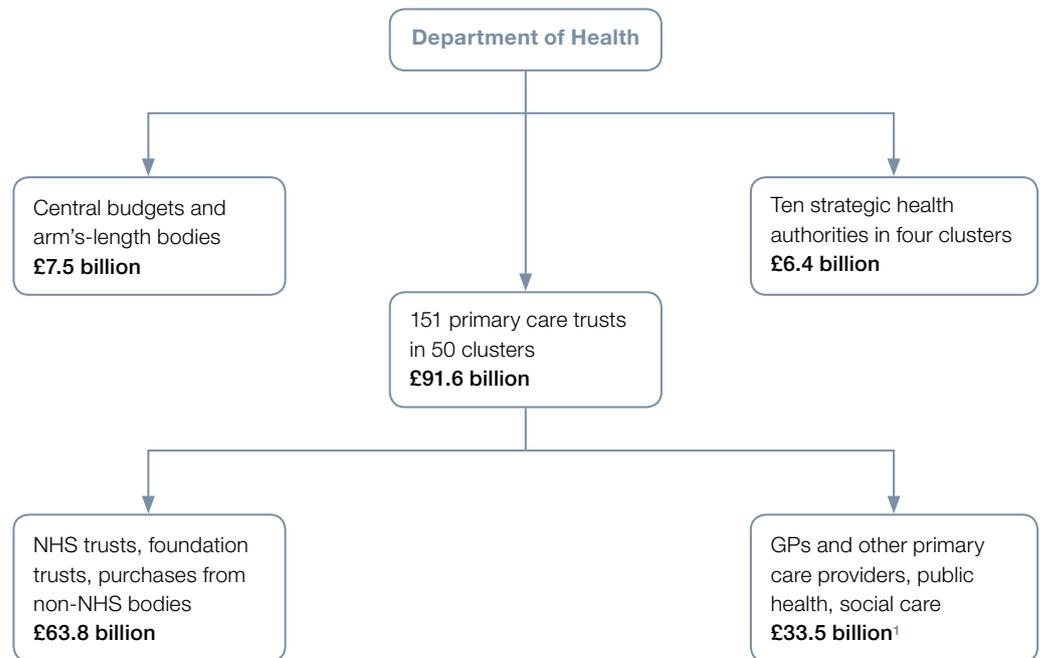
NHS funding

1.1 In 2012-13, there were 151 primary care trusts (PCTs), grouped into 50 clusters. During the year, two NHS trusts became foundation trusts (Royal Free London on 1 April 2012, and West Midlands Ambulance Service on 1 January 2013). A further four NHS trusts transferred all services to foundation trusts: (Trafford Healthcare NHS Trust to Central Manchester University Hospitals NHS Foundation Trust; Scarborough and North East Yorkshire Healthcare NHS Trust to York Teaching Hospital NHS Foundation Trust; Oxfordshire Learning Disabilities NHS Trust to Southern Health NHS Foundation Trust and Great Western Ambulance NHS Trust to South Western Ambulance Service NHS Foundation Trust). At the start of the financial year there were 106 NHS trusts, in addition to NHS Direct, which is a national body, and 143 foundation trusts. At 31 March 2013, in addition to NHS Direct, there were 100 NHS trusts and 145 foundation trusts.

Funding for the NHS in 2012-13

1.2 **Figure 1** shows, in a simplified way, how PCTs were responsible in 2012-13 for commissioning NHS services with a value of over £90 billion from GPs and other primary care providers, hospital trusts and other bodies.

Figure 1
Funding for the NHS, 2012-13



NOTES

- 1 The £33.5 billion funding for primary care, public health and social care includes PCT income that comes from other sources, including strategic health authority transfer and external income such as prescription charges.
- 2 The figures shown are initial allocations. The Department of Health and arm's-length body figures include budgets that were transferred to the NHS during the year – such as Drug Pooled Treatment and GP Practice funding.

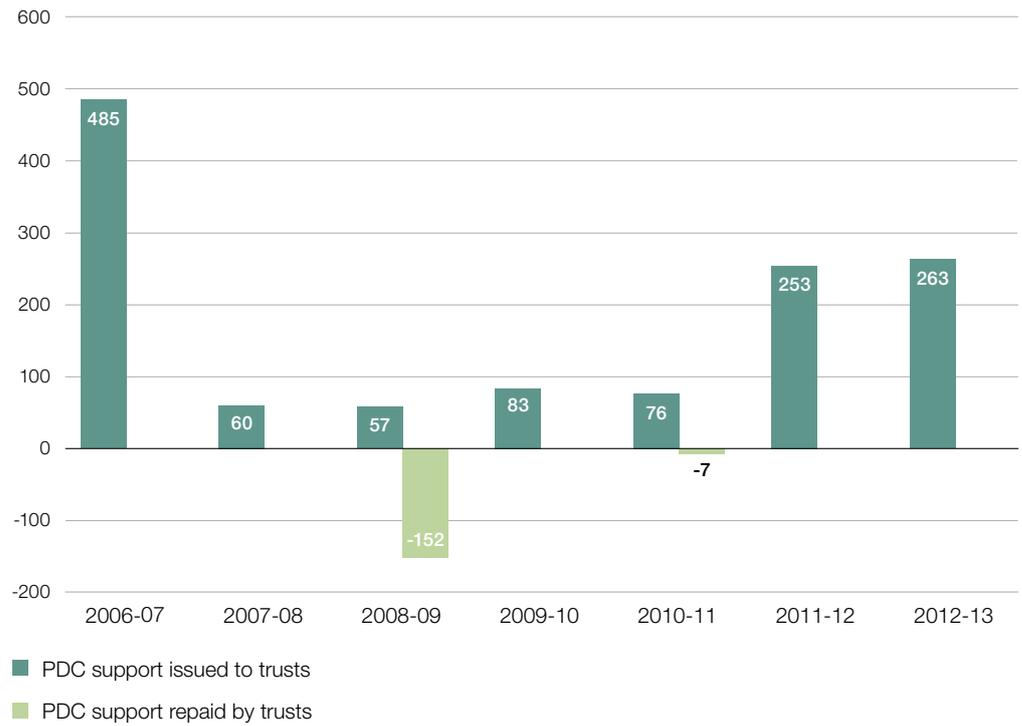
Source: Department of Health

Revenue-based public dividend capital

1.3 Figure 2 shows that the Department issued £263 million of public dividend capital (PDC) to trusts in 2012-13. This was an increase of £10 million compared with 2011-12. No trusts repaid any PDC either in 2011-12 or 2012-13. Public dividend capital is the equivalent of share capital for NHS bodies, and is a cash injection that directly strengthens an organisation's net asset base, as shown in its statement of financial position (balance sheet). Some of the PDC issued (revenue-based PDC) is to support operational cash requirements. Since 2006-07, the Department has issued a total of £1.3 billion revenue-based PDC to 25 organisations (NHS trusts and foundation trusts), of which just under £160 million has been repaid.

Figure 2

Revenue-based public dividend capital issued to, and repaid by, trusts, 2006-07 to 2012-13

Total revenue-based public dividend capital (£m)

Source: National Audit Office analysis of Department of Health data

The trusts receiving revenue-based public dividend capital

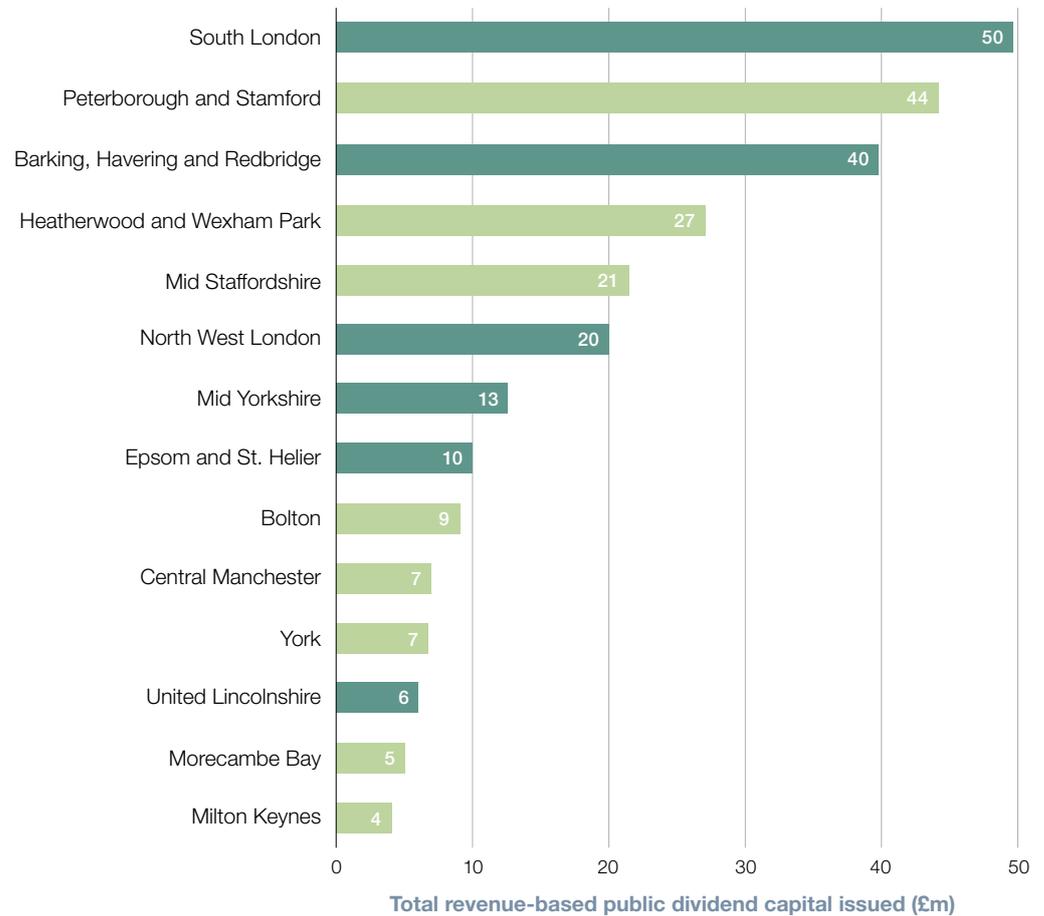
1.4 **Figure 3** shows that the Department issued revenue-based public dividend capital to 14 trusts in 2012-13. Six of these were NHS trusts and eight were foundation trusts. There are a small number of trusts that have now received substantial public dividend capital support. South London Healthcare NHS Trust, which received £50 million public dividend capital in 2012-13, and its predecessors have received a total of £405 million since 2006-07.⁶

1.5 Most of the trusts shown in Figure 3 needed additional public dividend capital because of concerns about their financial viability. In two cases, however, the public dividend capital was to support the cost of acquiring two NHS trusts by two relatively financially strong foundation trusts: Central Manchester NHS Foundation Trust (which acquired Trafford NHS Trust) and York Hospitals NHS Foundation Trust (which acquired Scarborough NHS Trust).

⁶ South London Healthcare NHS Trust was formed on 1 April 2009 by merging Bromley Hospitals NHS Trust, Queen Mary Sidcup NHS Trust and Queen Elizabeth Hospital NHS Trust.

Figure 3

Revenue-based public dividend capital issued to hospital trusts, 2012-13



- NHS trust
- Foundation trust

NOTE

1 Central Manchester (which acquired Trafford) and York (which acquired Scarborough) received public dividend capital to support the costs of the mergers.

Source: National Audit Office analysis of Department of Health and Monitor data

Public dividend capital dividends payable

1.6 **Figure 4** shows the value of dividends payable by NHS trusts and foundation trusts on public dividend capital (PDC) investments. Public dividend capital investment is similar to the share capital in private companies. NHS trusts and foundation trusts pay dividends based on 3.5 per cent of the value of their average relevant net assets.

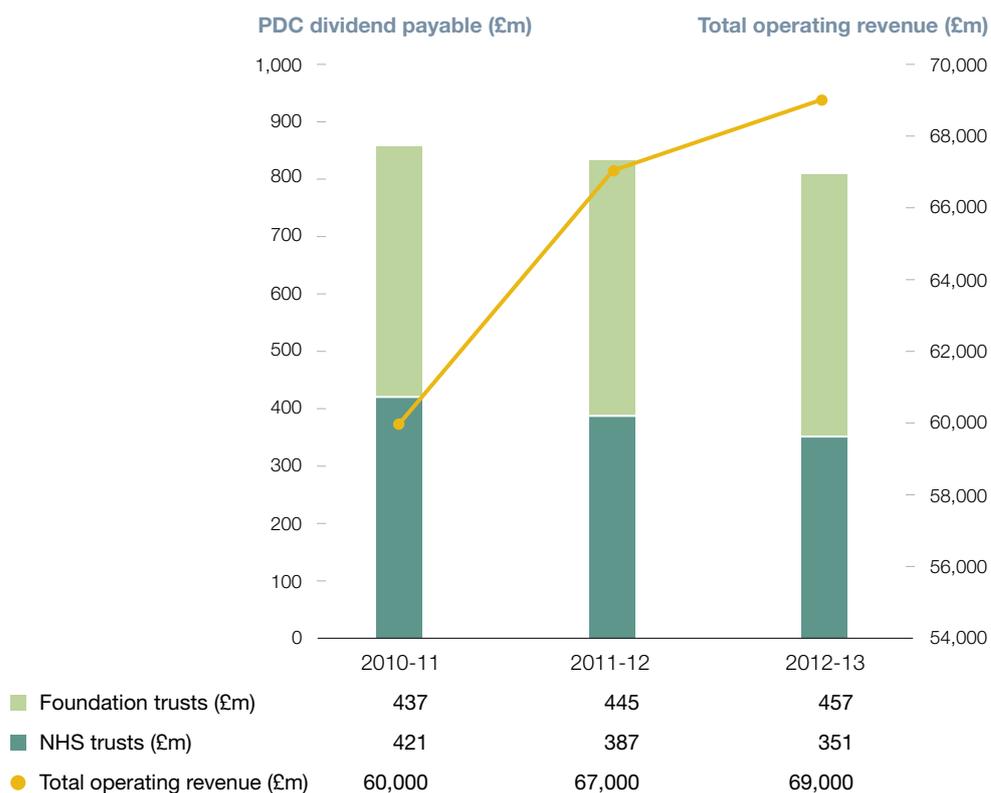
1.7 Total operating income for trusts increased by 16 per cent from 2010-11 to 2012-13, while the amount of PDC dividends payable fell by 6 per cent. This can be because of revaluing downwards capitalised assets such as buildings and major equipment. Some trusts with large commitments, for example liabilities for buildings funded under the private finance initiative, may have negative asset balances. This means that they pay no dividends at all on PDC.

1.8 This figure is significant because downward revaluation of assets could allow trusts to reduce their expenditure (increasing their surplus or reducing their deficit) as a result of changes primarily affecting the statement of financial position (the balance sheet).

1.9 The figures shown are the value of dividends payable at the end of the year.

Figure 4

Change in dividend payable on public dividend capital and total operating revenue, 2010-11 to 2012-13

**NOTE**

1 The data shown use draft accounts figures because the public dividend capital policy states that this is the stage at which dividends payable are crystallised in order to calculate the closing receivable/payable position. In some circumstances (mainly affecting foundation trusts), this figure can change at final accounts stage, but these cases are rare.

Source: National Audit Office analysis of Department of Health data

Additional funding for strategic change and financial support

1.10 Figure 5 shows that there were 23 trusts that received non-recurrent revenue for strategic change and financial support in 2012-13; this came to a total of £203 million. In comparison, 22 trusts received a total of £123 million funding for strategic change and other revenue support in 2011-12. Of those in receipt of support, 15 received revenue support in both financial years. It is possible, as we reported last year, that there may also have been other non-recurrent funding agreed locally between PCTs and trusts.

Figure 5

Additional funding for strategic change and other financial support to NHS trusts and foundation trusts in 2011-12 and 2012-13

Strategic health authority	NHS trust	2011-12 (£000)	2012-13 (£000)
North West	North Cumbria University Hospitals	28,000	20,000
	St. Helens and Knowsley Hospitals		3,000
	East Cheshire	2,200	
	Trafford Healthcare	9,000	
East Midlands	Northampton General Hospital		6,000
West Midlands	University Hospital of North Staffordshire		12,100
	Wye Valley	4,000	9,500
	George Eliot Hospital	1,700	5,000
	Mid Staffordshire NHS Foundation Trust	2,000	
	Shrewsbury and Telford Hospital	6,500	
East of England	Mid Essex Hospital Services	6,000	10,000
	Bedford Hospital	2,000	6,000
	Princess Alexandra Hospital	4,000	6,000
	Ipswich Hospital	3,500	2,000
	Hinchingbrooke Healthcare ¹	1,100	
	Suffolk Mental Health Partnership	2,000	
London	Barts Health ²	10,000	49,400
	South London Healthcare	747	10,000
	Imperial College Healthcare	15,000	8,000
	Barnet and Chase Farm Hospitals		7,800
	Barking, Havering and Redbridge University Hospitals	2,531	5,048
	North West London Hospitals	9,000	4,300
	West Middlesex University		4,200
	The Whittington Trust		3,000
	Ealing Hospital		2,245
	Epsom and St Helier University Hospitals	5,000	
South East Coast	Surrey and Sussex Healthcare	3,800	13,900
	East Sussex Hospitals		8,000
South Central	Oxford Learning Disability	1,250	1,400
South West	Weston Area Health	3,610	6,600
Total		122,938	203,493

NOTES

- 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.
- 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.
- In this list, only Mid Staffordshire NHS Foundation Trust is a foundation trust.

Source: National Audit Office analysis of Department of Health data

Local support to primary care trusts

1.11 Figure 6 shows that some commissioners also needed financial support; this totalled £157 million in 2012-13. Some of this additional support was managed by agreeing to redistribute available funds within PCT clusters, and some came from strategic health authorities. For 12 of these PCTs, deducting additional support may have turned an underspend at the end of the year into an overspend.

Figure 6

Additional funding for strategic change and other financial support to primary care trusts, 2012-13

Primary care trust (PCT) details			Additional funding for strategic change and financial support			Revenue resource limit overspend or underspend	
PCT name	Cluster	Strategic health authority (SHA)	Support received from SHA	Support received from PCT	Total support	Financial position with additional funding	Possible financial position without additional funding
			(£000)	(£000)	(£000)	(£000)	(£000)
Bury	Greater Manchester	North West	1,000	–	1,000	757	(243)
South Staffordshire	Staffordshire	West Midlands	12,000	–	12,000	15	(11,985)
North Staffordshire	Staffordshire	West Midlands	2,000	–	2,000	55	(1,945)
Barnet	North Central London	London	13,955	12,824	26,779	2,896	(23,883)
Enfield	North Central London	London	17,188	8,434	25,622	2,840	(22,782)
Haringey	North Central London	London	17,439	1,725	19,164	2,713	(16,451)
Hillingdon	North West London	London	–	25,600	25,600	1,979	(23,621)
Harrow	North West London	London	–	14,600	14,600	3,252	(11,348)
Hounslow	North West London	London	–	9,083	9,083	1,988	(7,095)
Ealing	North West London	London	–	4,530	4,530	2,500	(2,030)
Bexley	South East London	London	–	4,800	4,800	3,518	(1,282)
Croydon	South West London	London	–	11,633	11,633	63	(11,570)
Total			63,582	93,229	156,811	22,576	(134,235)

NOTES

- 1 PCT support comes from a mixture of within PCT clusters and from strategic health authorities (SHAs).
- 2 The support PCTs received was all financial support to prevent deficits, not for strategic change.

Source: National Audit Office analysis of Department of Health data

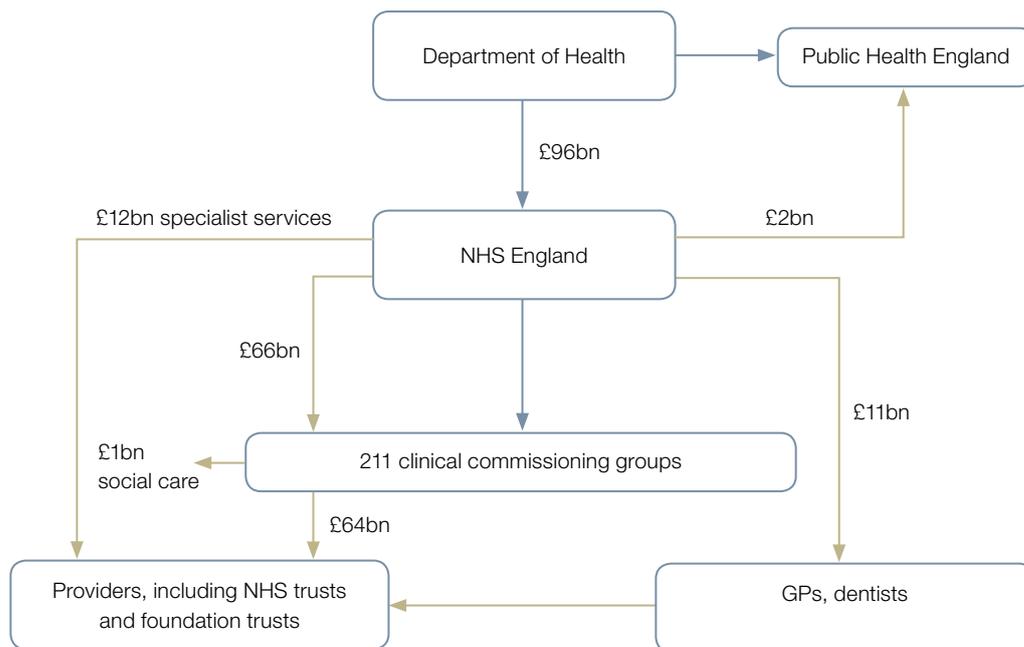
How funding is changing in 2013-14

1.12 Figure 7 shows, in a very simplified way, how commissioning has changed in 2013-14. NHS England and local clinical commissioning groups have taken over responsibility from PCTs for commissioning services from NHS trusts and foundation trusts.

1.13 In 2012-13, some PCT clusters managed their resources by agreeing to transfer available funds between PCTs within the cluster. Clinical commissioning groups are not clustered in the same way, which means that there may no longer be scope to do this. However, it is possible that, like PCTs, some clinical commissioning groups will need additional support from NHS England in 2013-14.

Figure 7
Funding for the NHS in 2013-14

Clinical commissioning groups have a combined budget of some £66 billion in 2013-14



→ Overseeing role
→ Flow of money (£)

NOTES

- 1 The balance of the £96 billion 2013-14 budget is administration, central programmes and other adjustments.
- 2 The 211 clinical commissioning groups are allocated £1 billion for administration costs.

Source: National Audit Office

Part Two

Measures of financial sustainability

2.1 This part of the update report considers the financial sustainability of individual trusts. Key measures used are whether trusts achieved a surplus or deficit, and the ratio between their underlying net income, excluding accounting adjustments, and their size. To give an indication of sustainability, we have shown analyses both including and excluding the possible impact of non-recurrent financial support detailed in Part One.

Measures of the sustainability of individual NHS bodies

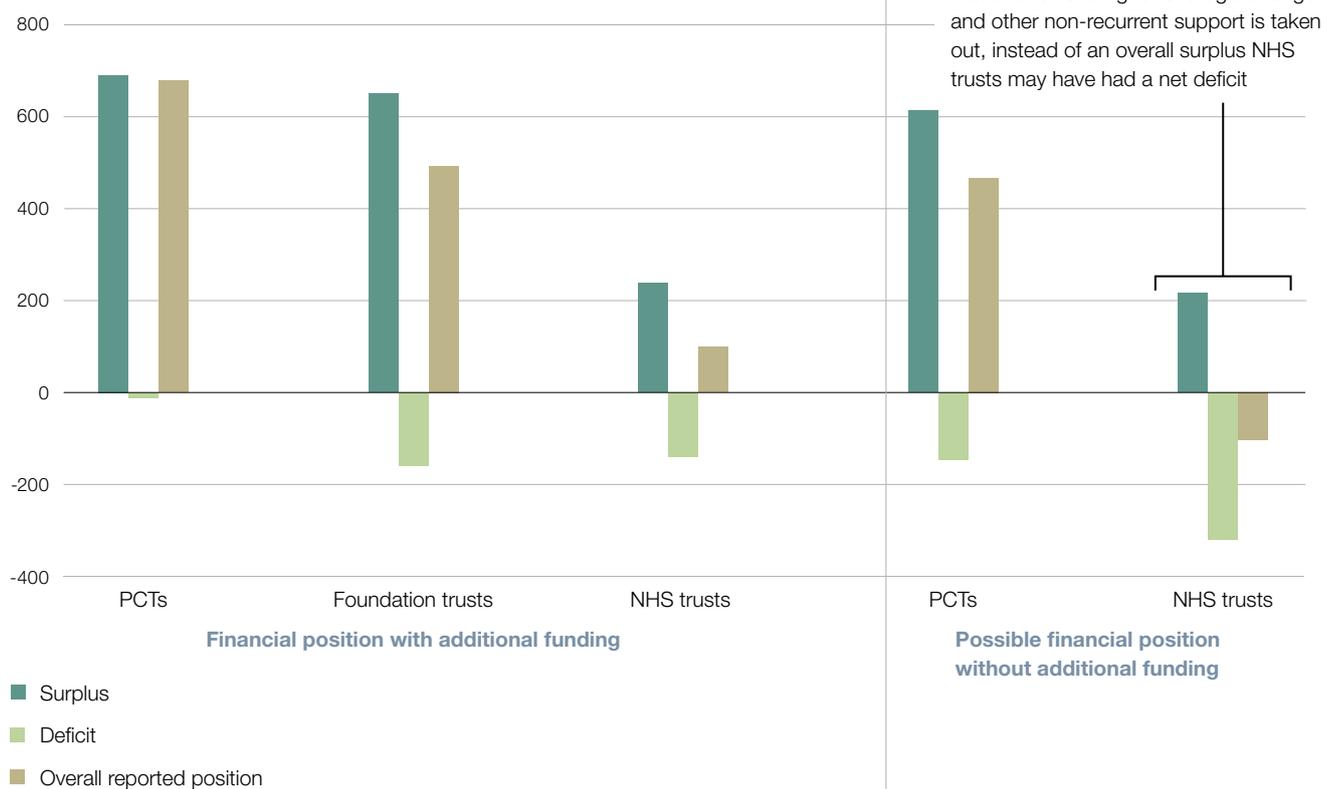
2.2 **Figure 8** shows that most primary care trusts (PCTs), NHS trusts and foundation trusts reported surpluses in 2012-13. There were five NHS trusts in deficit. However, without additional local revenue support from strategic health authorities or PCTs, paid to NHS trusts through PCTs, there may have been 23 NHS trusts in deficit, and NHS trusts taken as a whole may have had a net deficit instead of a net surplus.

2.3 NHS Direct is an NHS trust, but because it is a national body it is not directly comparable to other NHS trusts and foundation trusts. For this reason, it is not included with other trusts in the analyses which follow. In 2012-13, NHS Direct had a deficit of £68 million, largely due to the decommissioning costs of the 0845 telephone service. If these exceptional costs and accounting adjustments for impairments are excluded, NHS Direct had an underlying surplus of £0.4 million in 2012-13.

Figure 8

Surpluses and deficits of primary care trusts, NHS trusts and foundation trusts, 2012-13

The figures shown include the position with the additional local support, and possible surpluses and deficits excluding additional support

Surplus or deficit (£m)

	Financial position with additional funding						Possible financial position without additional funding			
	PCTs		Foundation trusts		NHS trusts		PCTs		NHS trusts	
	(£m)	(Number)	(£m)	(Number)	(£m)	(Number)	(£m)	(Number)	(£m)	(Number)
Surplus	690	150	651	125	238	97	761	138	217	79
Deficit	-12	1	-159	20	-139	5	-146	13	-320	23
Overall reported position	678	151	492	145	100	102	614	151	-104	102

NOTES

- Totals may not sum due to rounding.
- NHS trusts that became foundation trusts in year have been treated as though they were foundation trusts for the whole year.
- Data in the chart excludes figures for NHS Direct.
- Under the terms of the franchise risk agreement relating to Hinchingsbrooke Healthcare NHS Trust with Circle, additional funding up to a value of £5 million is covered from Circle's own resources. In 2012-13, Hinchingsbrooke Healthcare NHS Trust received £3.5 million funding from Circle. Because it was part of the franchise agreement, this is not treated as additional funding in the figure above.
- At 31 March 2013, there were 100 NHS trusts. In the course of the year, Oxfordshire Learning Disability NHS Trust transferred all services to Southern Health NHS Foundation Trust (on 1 November 2012), and Great Western Ambulance Service NHS Trust transferred all services to South Western Ambulance Service NHS Foundation Trust (on 1 February 2013). Because these two trusts reported surpluses for the majority of 2012-13, we have included them in the data for this chart.

Source: National Audit Office analysis of Department of Health and Monitor data

The distribution of trusts with a surplus or deficit in 2012-13

2.4 **Figure 9** shows that the majority of NHS trusts and foundation trusts reported a surplus in 2012-13. Five NHS trusts and 20 foundation trusts were in deficit. The number of trusts in deficit is relatively small, compared with the total number of trusts, but some of these organisations have very substantial deficits.

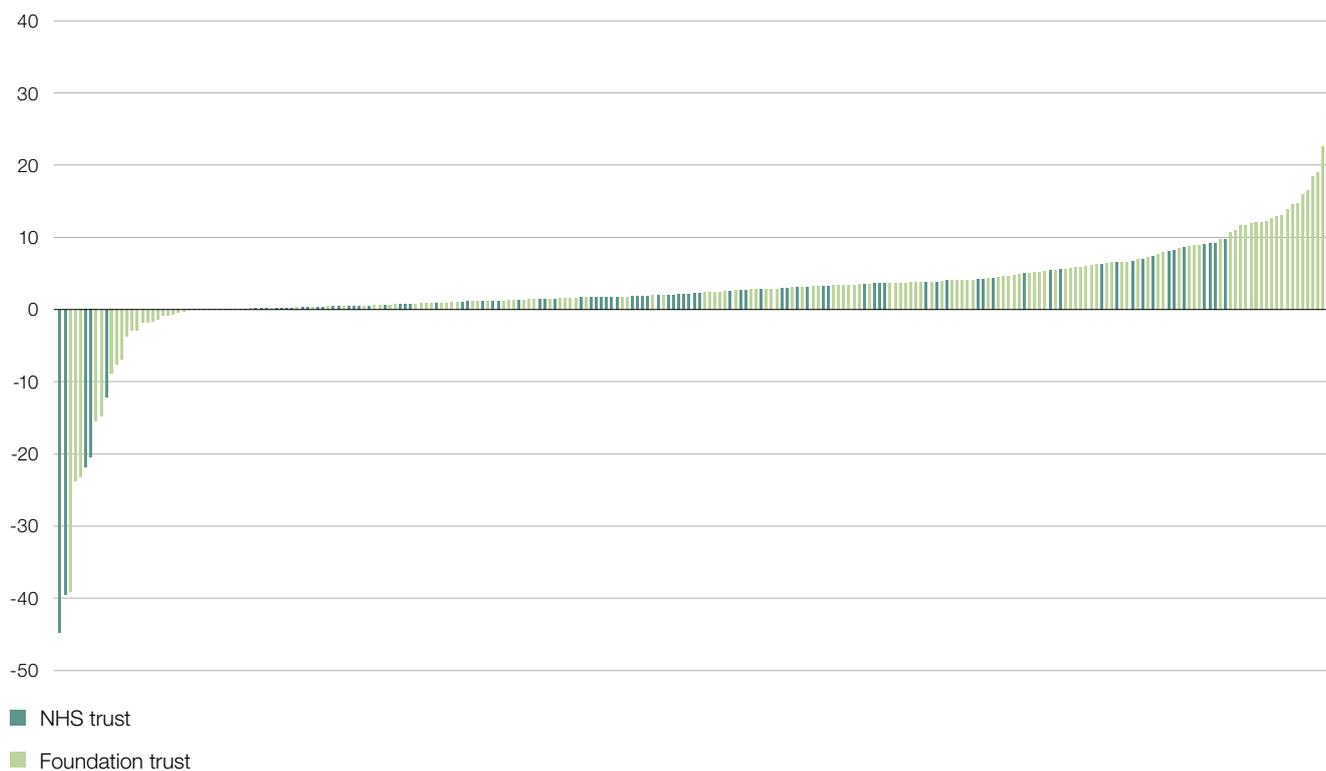
2.5 This chart shows financial performance including any additional financial support that trusts may have received. There were three NHS trusts – South London Healthcare, North West London Hospitals Trust, and Barking, Havering and Redbridge University Hospitals Trust – that were in deficit even with financial support.

2.6 The Department's planning guidance is that NHS trusts should plan to achieve a 1 per cent surplus. The trusts with the largest surpluses are foundation trusts.

Figure 9

Surpluses and deficits of NHS trusts and foundation trusts, 2012-13

Surplus or deficit (£m)

**NOTES**

- 1 Data in the chart exclude figures for NHS Direct.
- 2 Figures include any non-recurrent support provided to NHS trusts.
- 3 NHS trusts that became foundation trusts in year have been treated as though they were foundation trusts for the whole year.

Source: National Audit Office analysis of Department of Health and Monitor data

Net current assets, including cash

2.7 **Figure 10** shows that at the end of March 2013, NHS foundation trusts held net current assets totalling £1.8 billion, an increase from £1.5 billion in 2011-12. NHS trusts were in a much weaker position, with net current liabilities of £0.2 billion.

2.8 At the end of the financial year, foundation trusts held £4.48 billion in cash and cash equivalents, an increase of £0.5 billion from 2011-12. NHS trusts held £1.38 billion in cash and cash equivalents.

Figure 10

Cash and other current assets and liabilities at the end of the financial year, 2011-12 and 2012-13

	2011-12				2012-13			
	Current assets		Current liabilities	Net current assets	Current assets		Current liabilities	Net current assets
	Cash and cash equivalents (£bn)	Other current assets (£bn)	(£bn)	(£bn)	Cash and cash equivalents (£bn)	Other current assets (£bn)	(£bn)	(£bn)
NHS trusts	1.16	1.91	-3.31	-0.24	1.38	1.81	-3.39	-0.20
NHS foundation trusts	3.95	2.20	-4.65	1.49	4.48	2.37	-5.06	1.79
Total	5.11	4.11	-7.96	1.25	5.86	4.18	-8.45	1.58

NOTES

- 1 Current assets and current liabilities include balances between trusts (figures are gross, not netted off between trusts).
- 2 Figures do not sum due to rounding.
- 3 Figures are based on audited data except for the 2012-13 data for Barnet, Enfield and Haringey Mental Health NHS Trust, for which only unaudited data were available at the time of publication.
- 4 Figures include NHS Direct.

Source: National Audit Office analysis of Department of Health and Monitor data

The average surplus or deficit of NHS trusts and foundation trusts

2.9 **Figure 11** shows that the average surplus in foundation trusts has consistently been higher than that for NHS trusts, and it has increased over the last three years.

2.10 For NHS trusts, the average surplus was slightly higher in 2012-13 compared with 2011-12. However, this position may be reversed if non-recurrent support is excluded. Without a compensating decrease in expenditure, NHS trusts may have had an average deficit of £1.0 million in 2012-13, compared with a possible deficit of £0.8 million in 2011-12.

2.11 Figures for the total surplus or deficit follow the same pattern:⁷

- The total net surplus for foundation trusts has increased from £393 million in 2010-11, to £437 million in 2011-12 and £487 million in 2012-13.
- The total net surplus for NHS trusts fell from £112 million in 2010-11 to £44 million in 2011-12,⁸ and then rose to £106 million in 2012-13.⁹
- Excluding non-recurrent support, NHS trusts may have had a total net deficit of £82 million in 2011-12, and £98 million in 2012-13.

2.12 It is important to note, however, that there are a few trusts with very large deficits relative to others (including, for example: South London Healthcare NHS Trust; Barking, Havering and Redbridge University Hospitals NHS Trust; and Mid Yorkshire NHS Trust). These bring down the total surplus, and the average, for all NHS trusts.

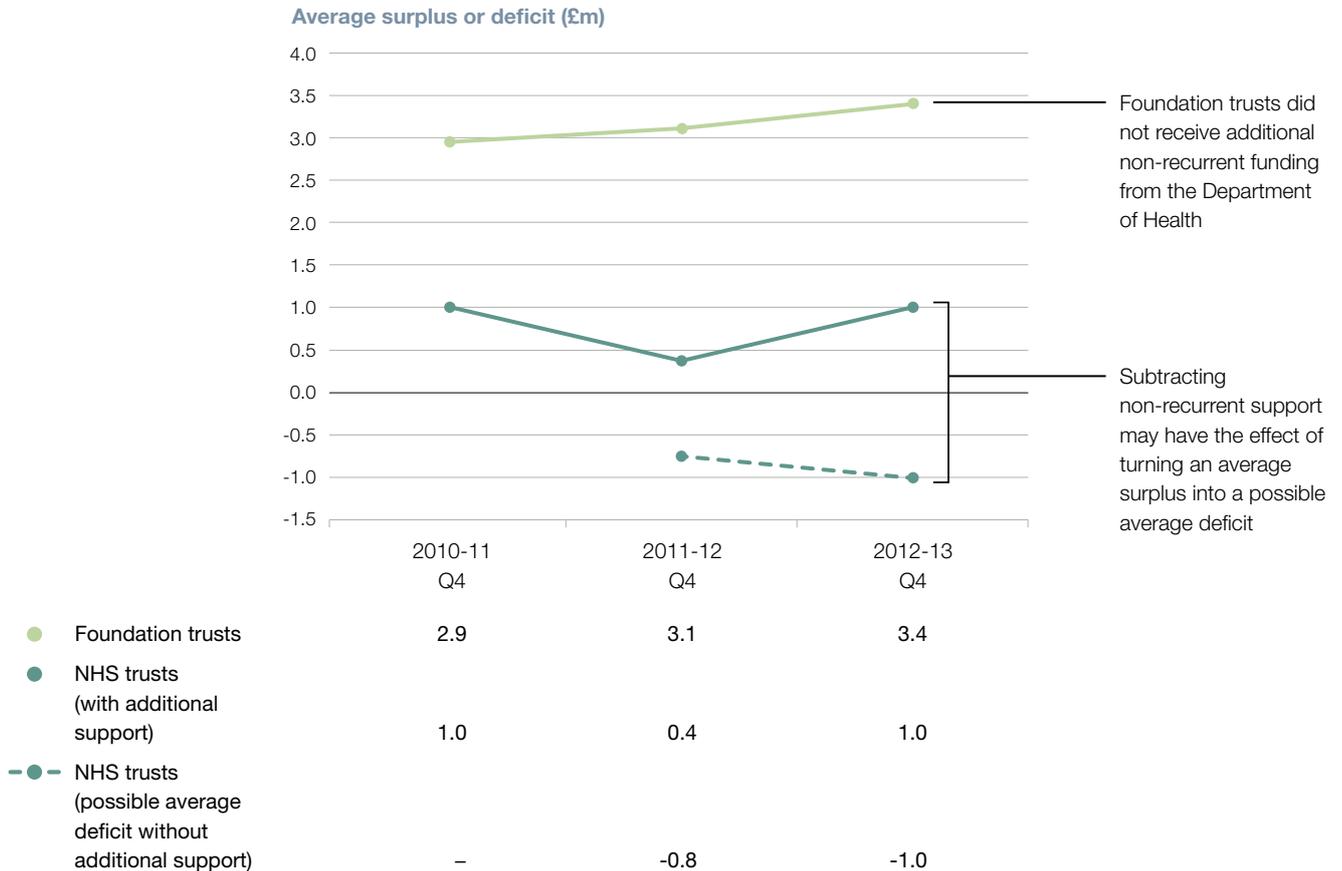
⁷ For NHS trusts that became foundation trusts during the year, Monitor and the Department of Health publish surplus or deficit figures based on the period in which they were NHS trusts or foundation trusts. The totals reported here match these figures.

⁸ The overall trust position for the 2011-12 accounts has been revised from £45 million reported at Quarter four to £44 million, following receipt of the final audited accounts position from East Midlands Ambulance Service NHS Trust (which changed from £2.409 million to £1.402 million).

⁹ The overall trust position for 2012-13 used draft accounts for Barnet, Enfield and Haringey Mental Health NHS Trust.

Figure 11

Average surplus or deficit in NHS trusts and foundation trusts, 2010-11 to 2012-13

**NOTES**

- Under the terms of the franchise risk agreement relating to Hinchingsbrooke 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 Hinchingsbrooke Healthcare NHS Trust received £3.5 million funding from Circle. This is not treated as additional funding in the figure above.
- Figures for NHS trusts include data for acute, ambulance, community and mental healthcare provider organisations. Data does not include figures for NHS Direct.
- At 31 March 2013, there were 100 NHS trusts. In the course of the year, Oxfordshire Learning Disability NHS Trust transferred all services to Southern Health NHS Foundation Trust (on 1 November 2012), and Great Western Ambulance Service NHS Trust transferred all services to South Western Ambulance Service NHS Foundation Trust (on 1 February 2013). Because these two trusts reported surpluses for the majority of 2012-13, we have included them in the data for this chart.
- NHS trusts that became foundation trusts in year have been treated as though they were foundation trusts for the whole year.

Source: National Audit Office analysis of Department of Health and Monitor data

EBITDA as a measure of underlying sustainability

2.13 Monitor reports the financial performance of NHS foundation trusts using a measure called EBITDA (earnings before interest, tax, depreciation and amortisation). Expressed as percentage of income (the EBITDA margin), it is a good measure of underlying financial sustainability, as a proxy for operating efficiency. A high number is better. Monitor uses a threshold of 5 per cent as the EBITDA margin it would normally expect a trust to meet in order to be licensed as a foundation trust.

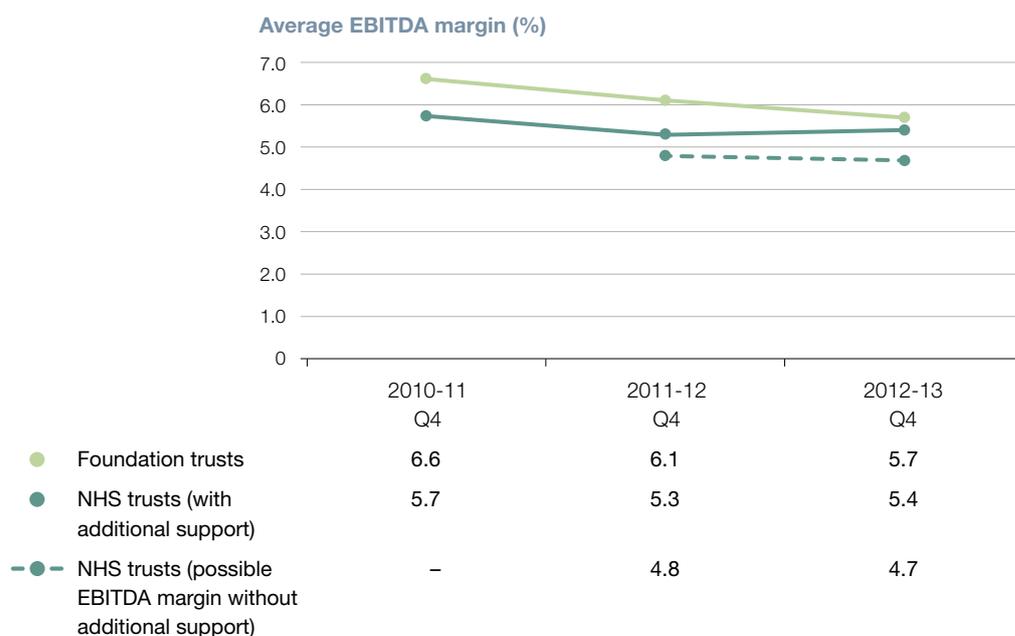
2.14 **Figure 12** shows that the average EBITDA margin has been in decline for foundation trusts over the last three years. It has, however, been consistently higher for foundation trusts than it has been for NHS trusts.

2.15 In NHS trusts, the average EBITDA margin fell from 5.7 per cent in 2010-11 to 5.3 per cent in 2011-12. It then rose slightly, to 5.4 per cent, in 2012-13.

2.16 However, the average EBITDA margin may be distorted by the potential effect of non-recurrent financial support. Removing non-recurrent support from the calculation means that the average EBITDA margin for NHS trusts may be lower, and potentially falls from 4.8 per cent in 2011-12 to 4.7 per cent in 2012-13.

Figure 12

Average EBITDA margin for NHS trusts and foundation trusts, 2010-11 to 2012-13

**NOTES**

- Figures for NHS trusts include data for acute, ambulance, community and mental healthcare provider organisations. Data shown here excludes figures for NHS Direct.
- EBITDA figures for NHS foundation trusts are calculated from unaudited quarterly returns. EBITDA figures for NHS trusts are calculated from audited financial data.
- When reporting on the sector, Monitor calculate the sector EBITDA by dividing the total EBITDA for the sector by the total revenue for the sector, in order to adjust for size of trust. This gives an average EBITDA margin of 6.0 per cent in 2012-13. In this report, we calculated a simple average EBITDA margin for all foundation trusts, giving an average EBITDA margin of 5.7 per cent in 2012-13.
- Under the terms of the franchise risk agreement relating to Hinchingsbrooke Healthcare NHS Trust, with Circle, additional funding up to a value of £5m is covered from Circle's own resources. In 2012-13, no additional NHS funding was required as a consequence of this agreement and Hinchingsbrooke Healthcare NHS Trust received £3.5 million franchise funding from Circle. This is not reflected in the figure above.
- At 31 March 2013, there were 100 NHS trusts. In the course of the year, Oxfordshire Learning Disability NHS Trust transferred all services to Southern Health NHS Foundation Trust (on 1 November 2012), and Great Western Ambulance Service NHS Trust transferred all services to South Western Ambulance Service NHS Foundation Trust (on 1 February 2013). Because these two trusts reported surpluses for the majority of 2012-13, we have included them in the data for this chart.

Source: National Audit Office analysis of Department of Health and Monitor data

The distribution of EBITDA margins

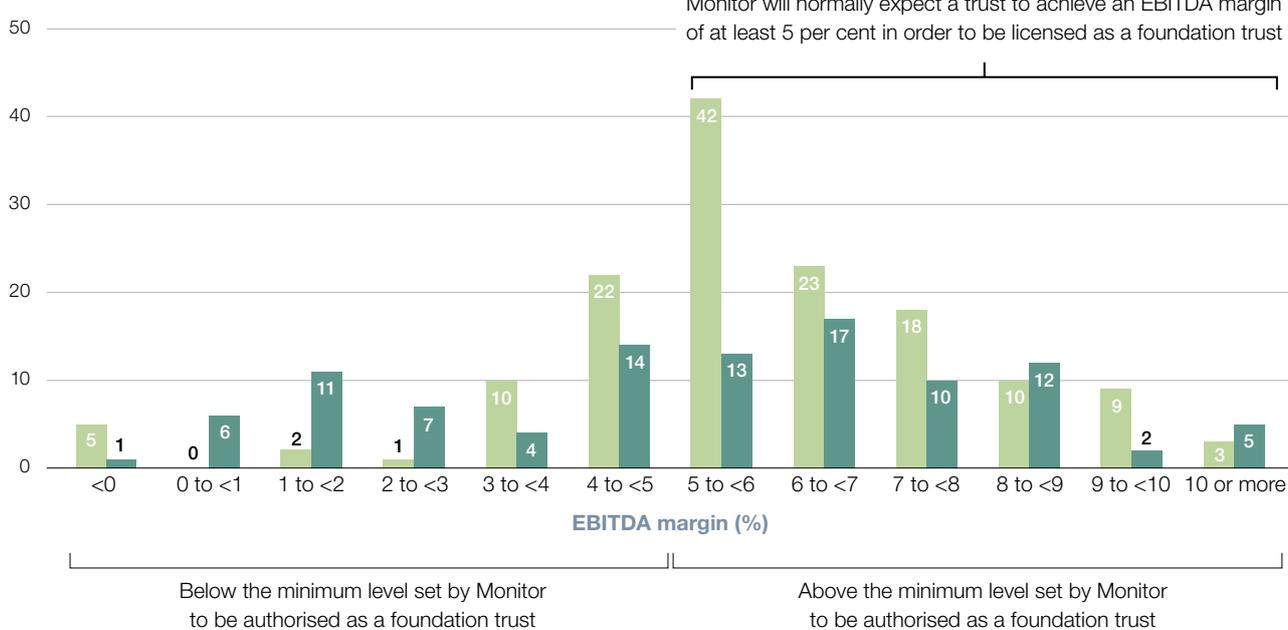
2.17 Figure 13 shows that there is a substantial number of trusts with an EBITDA margin below 5 per cent, placing them below the level Monitor would normally view as a sustainable level in order to license a trust as a foundation trust.

2.18 Taken as a whole, foundation trusts are in a stronger position than NHS trusts. Nonetheless, there were 40 foundation trusts (28 per cent of all foundation trusts) that would not meet Monitor's requirement if applying for foundation trust status now.

2.19 At the end of 2012-13, there were 43 NHS trusts (42 per cent of all NHS trusts) that did not meet the 5 per cent minimum requirement to be licensed as foundation trusts. The figure also includes non-recurrent local revenue support. Were this to be excluded, as Figure 12 shows, scores for NHS trusts may have been lower.

Figure 13

Distribution of EBITDA margins in NHS trusts and foundation trusts, end of 2012-13

Number of trusts

■ Foundation trusts

■ NHS trusts

NOTES

- 1 NHS Direct is not included.
- 2 Figures are not adjusted for the potential impact of any non-recurrent financial support trusts may have received.
- 3 At 31 March 2013, there were 100 NHS trusts. In the course of the year, Oxfordshire Learning Disability NHS Trust transferred all services to Southern Health NHS Foundation Trust (on 1 November 2012), and Great Western Ambulance Service NHS Trust transferred all services to South Western Ambulance Service NHS Foundation Trust (on 1 February 2013). Because these two trusts reported surpluses for the majority of 2012-13, we have included them in the data for this chart.

Source: National Audit Office analysis of Department of Health and Monitor data

Part Three

Organisations under financial pressure

3.1 There is a small number of trusts that are under particular pressure. For some trusts, a deficit in one year is not necessarily an indicator of poor performance if the trust is able to break even over the longer term. A deficit, for example, may be due to exceptional reconfiguration costs. However, there are other trusts that have persistent deficits and are unlikely to be sustainable in their current form. We previously reported that in at least six cases, this was because trusts had unaffordable long-term commitments under private finance agreements.¹⁰

3.2 **Figure 14** shows that the number of organisations in deficit fell from 34 in 2011-12 to 26 in 2012-13.¹¹ There were four times as many foundation trusts in deficit as there were NHS trusts. The average deficit was much higher among NHS trusts than it was in foundation trusts because there was a small number of NHS trusts with large deficits. However, when additional financial support is excluded, both the number of trusts in deficit and the size of the underlying deficit may have increased from 2011-12 to 2012-13.

¹⁰ Comptroller and Auditor General, *Securing the future financial sustainability of the NHS*, Session 2012-13, HC 191, National Audit Office, July 2012.

¹¹ We have included 20 foundation trusts in this total. West Midlands Ambulance NHS 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.

Figure 14

NHS organisations in deficit, 2011-12 and 2012-13

Figures are shown both with and without additional local funding for strategic change and financial support

NHS organisation	2012-13				2011-12			
	Deficit (with support)		Possible deficit (without support)		Deficit (with support)		Possible deficit (without support)	
	(Number)	(£m)	(Number)	(£m)	(Number)	(£m)	(Number)	(£m)
PCTs	1	-12	13	-146	3	-49	3	-49
NHS foundation trusts	20	-159	20	-159	21	-130	21	-132
NHS trusts	5	-139	23	-320	10	-177	22	-287
Total	26	-310	56	-625	34	-356	46	-468

NOTES

- 1 NHS trusts that became foundation trusts during the financial year have been treated as though they were foundation trusts for the whole year.
- 2 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 is not reflected in the figure above.
- 3 NHS Direct is not included.

Source: National Audit Office analysis of Department of Health and Monitor data

NHS trusts in deficit despite additional support

3.3 **Figure 15** lists the five NHS trusts that were in deficit in 2012-13. Four of these trusts also have private finance initiative commitments. Among these, the largest deficits were in South London Healthcare NHS Trust and Barking, Havering and Redbridge University Hospitals NHS Trust, which have had persistent deficits for some years.

3.4 Three of these trusts – South London Healthcare NHS Trust; Barking, Havering and Redbridge University Hospitals NHS Trust; and North West London Hospitals NHS Trust – received non-recurrent revenue support, without which they may have had a larger deficit than they reported.

Figure 15

NHS trusts in deficit, and the possible impact of the additional support three of these trusts received in 2012-13

NHS trust	Strategic health authority	Deficit with support	Support received	Possible deficit without support	Private finance initiative
		(£m)	(£m)	(£m)	
South London Healthcare	London	-44.7	10.0	-54.7	Yes
Barking, Havering and Redbridge	London	-39.5	5.0	-44.5	Yes
Mid Yorkshire Hospitals	Yorkshire and Humber	-21.8	0.0	-21.8	Yes
North West London Hospitals	London	-20.5	4.3	-24.8	Yes
Epsom and St Helier	London	-12.1	0.0	-12.1	No

Source: National Audit Office analysis of Department of Health data

Foundation trusts in deficit

3.5 Figure 16 shows that in 2012-13, there were five foundation trusts with deficits greater than £10 million. Three of these foundation trusts (Bolton, Morecambe Bay and Mid Staffordshire) do not have private finance initiative commitments.

Figure 16

Foundation trusts with deficits greater than £10 million, 2012-13

Foundation trust	Strategic health authority	Deficit (£m)	Private finance initiative	Governance risk rating
Peterborough and Stamford	East of England	-39.0	Yes	●
Bolton	North West	-23.7	No	●
Morecambe Bay	North West	-23.2	No	●
Sherwood Forest Hospitals	East Midlands	-15.1	Yes	●
Mid Staffordshire	West Midlands	-14.7	No	●

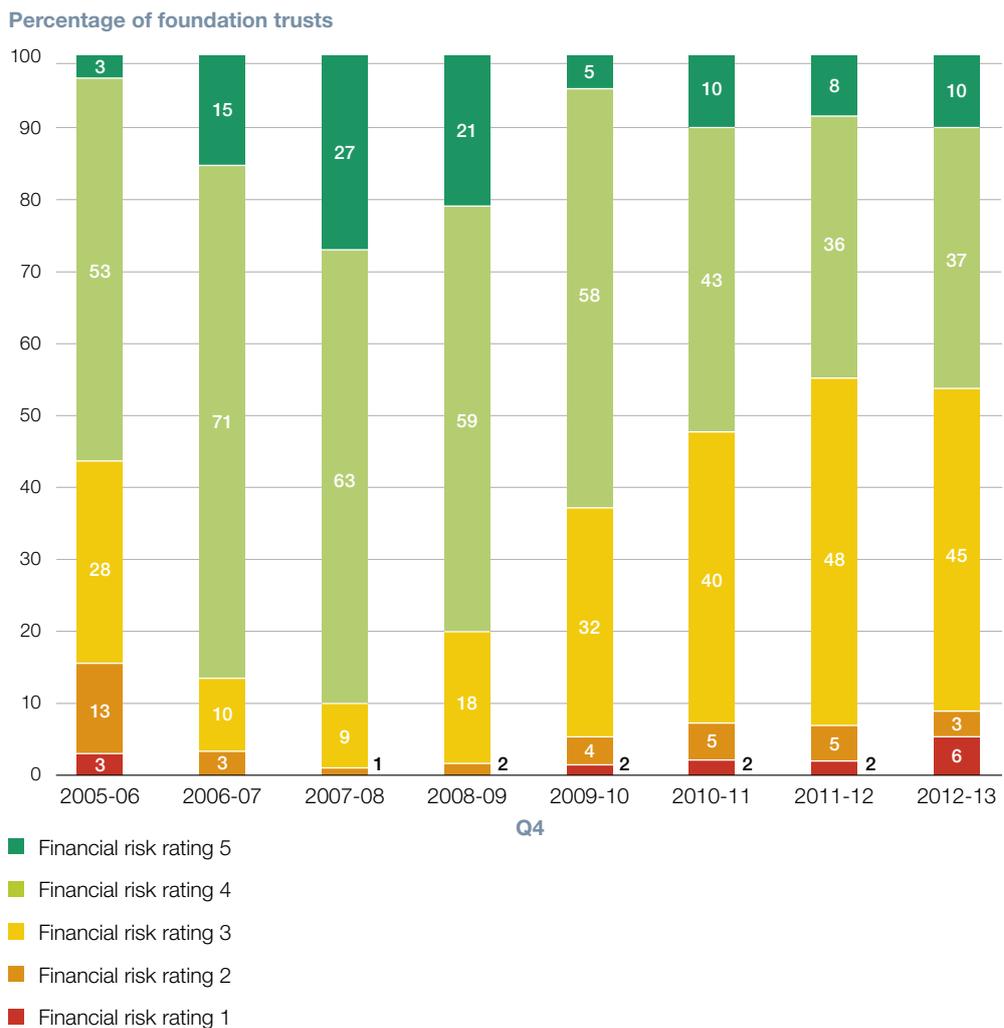
Source: National Audit Office analysis of Monitor data

Financial risk in foundation trusts

3.6 Figure 17 shows that financial risk in foundation trusts is increasing. Monitor assesses all foundation trusts quarter by quarter, and assigns financial and governance risk ratings. As a benchmark, Monitor normally expects aspirant trusts to achieve a risk rating of three or more in order to be licensed as a foundation trust.

3.7 The figure shows that the proportion of foundation trusts scoring four or five (those with the least financial risk) has decreased. The proportion of trusts at the highest risk (a risk score of one) increased from 2 per cent to 6 per cent from Quarter four of 2011-12 to Quarter four of 2012-13.

Figure 17
Monitor’s financial risk ratings for foundation trusts at Quarter four, 2005-06 to 2012-13



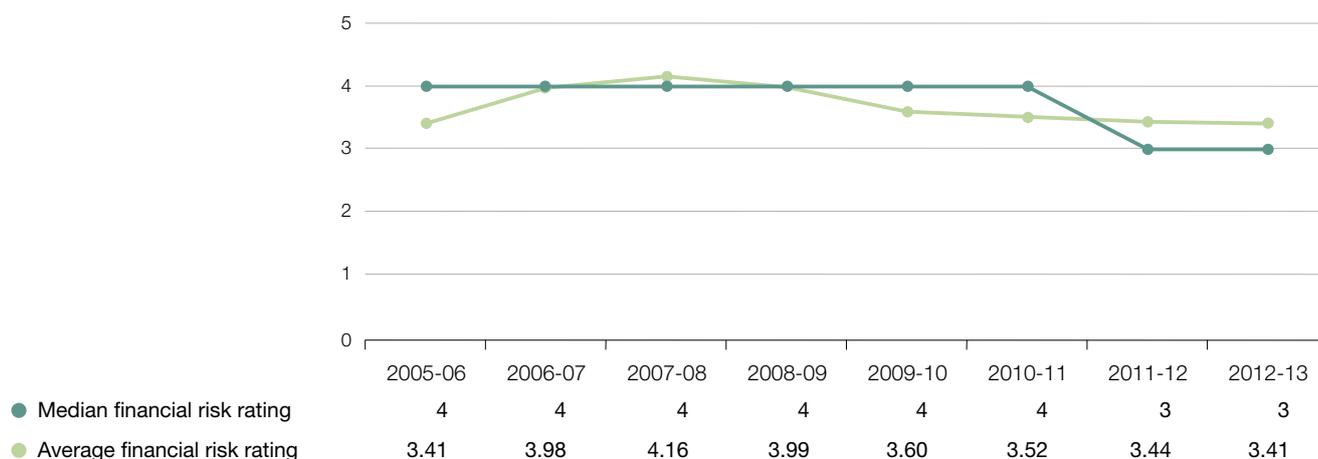
NOTE
1 Figures may not sum due to rounding.

Source: National Audit Office analysis of Monitor data

3.8 The average risk rating showed risk slightly reducing (scores were higher) until 2007-08, but steadily increasing (scores are lower) since then. Similarly, the median rating (the most common score) fell from four to three between 2010-11 and 2011-12.

3.9 There is no directly equivalent measure for NHS trusts. At the end of 2012-13, there were seven trusts classed by the Department as underperforming financially, and two whose performance was under review for their financial performance. However, the financial performance framework for NHS trusts is not adjusted to reflect additional cash support from the Department or other non-recurrent local revenue support; if this adjustment had been made, more organisations may have been classed as underperforming or placed under review.

Financial risk rating (1 = poor, 5 = good)



Governance risk for foundation trusts

3.10 Figure 18 shows that the proportion of foundation trusts assigned a red rating for governance risk is increasing. The proportion of red ratings increased from 3 per cent in 2005-06 to 18 per cent (26 of 145 foundation trusts) in 2012-13.

3.11 It is difficult to identify clear trends in the governance risk ratings, however, because Monitor has changed the assessment criteria it uses:

- In 2010-11, Monitor moved from a three-point scale to a four-point scale, splitting the amber rating into amber-green and amber-red ratings.
- The criteria for ratings (such as the clinical targets that form part of Monitor's assessment) have changed over time.

3.12 The governance risk ratings for 2012-13 are not directly comparable with the previous year, because Monitor changed the way it considers information from the Care Quality Commission. Monitor's governance rating in 2012-13 takes into account only those trusts for which the Care Quality Commission has flagged major concerns or has taken enforcement action. In principle, we would expect to have seen a small improvement in reported risk ratings, but this is not apparent in the data. Irrespective of the changes to the way risk is reported, Monitor remains aware of minor and moderate concerns, and uses this information to inform how it regulates individual trusts on a day-to-day basis.

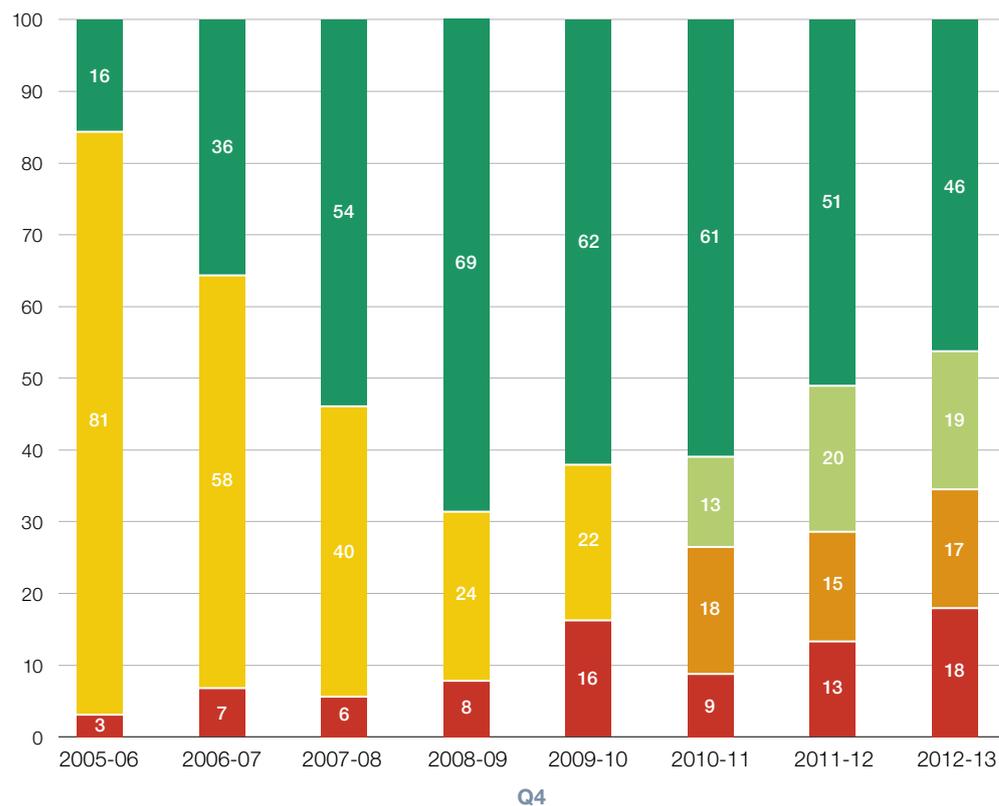
3.13 There is no directly equivalent measure for NHS trusts. At the end of 2011-12, there were four trusts classed by the Department as challenged because of their quality of services, and 14 underperforming.¹² In 2012-13, tripartite formal agreement (TFA) monitoring and the NHS Performance Framework were brought together. The Department has said that it will publish TFA monitoring ratings for all the remaining acute and ambulance NHS trusts alongside the monthly NHS Performance Framework results for 2012-13. The TFA process is informed by the NHS Performance Framework ratings.

¹² Based on indicators underpinning the NHS Performance Framework, organisations were categorised as 'performing', 'performance under review', 'underperforming', or 'challenged'. Performance under review described an organisation with minor concerns; underperforming referred to an organisation with more serious performance issues; and challenged was used to signify organisations that had serious ongoing performance concerns for an extended period of time. Organisations were not allowed to remain in a poor performance category indefinitely, so that being in one category for three consecutive quarters would relegate a trust to the category below.

Figure 18

Monitor's governance risk ratings for foundation trusts at Quarter four, 2005-06 to 2012-13

Percentage of foundation trusts



NOTES

- 1 In 2010-11, Monitor moved from a three-point scale to a four-point scale, splitting the amber rating into amber-green and amber-red ratings.
- 2 Figures may not sum due to rounding.

Source: National Audit Office analysis of Monitor data

Foundation trusts in breach of the terms of their licence

3.14 Figure 19 shows that an increasing number of trusts are unable to meet the standards Monitor requires all foundation trusts to achieve. Monitor reports quarterly on the number of trusts that are not meeting its standards. In the last quarter of 2012-13, there were 19 trusts (13 per cent of all foundation trusts) in significant breach of their terms of authorisation. There were more trusts in breach of their terms of authorisation in 2012-13, both in absolute and percentage terms, than there have been at any point in the past.

Foundation trusts persistently in breach

3.15 Figure 20 shows that there are a number of foundation trusts that have persistently been unable to meet the standards of finance or governance that Monitor expects foundation trusts to achieve. At 31 March 2013, there were 19 foundation trusts in breach of their terms of authorisation, of which four had been in breach for over three years. Of the 19 trusts in breach, 14 were in breach wholly or partly because of financial problems.

Figure 20
Foundation trusts in breach, 31 March 2013

Trust	Reason for breach (finance or governance)	Time in breach (months)
Mid Staffordshire NHS Foundation Trust	Both	50
Heatherwood and Wexham Park NHS Foundation Trust	Finance	46
Basildon and Thurrock University Hospitals NHS Foundation Trust	Governance	42
Milton Keynes Hospital NHS Foundation Trust	Both	38
Tameside Hospital NHS Foundation Trust	Finance	25
Medway NHS Foundation Trust	Both	23
University Hospitals of Morecambe Bay NHS Foundation Trust	Governance	18
Peterborough and Stamford Hospitals NHS Foundation Trust	Both	18
Burton Hospitals NHS Foundation Trust	Finance	17
Southend University Hospital NHS Foundation Trust	Governance	16
Derby Hospitals NHS Foundation Trust	Finance	15
Queen Elizabeth Hospital Kings Lynn NHS Foundation Trust	Both	15
Bolton NHS Foundation Trust	Both	12
Royal National Hospital for Rheumatic Diseases NHS Foundation Trust	Finance	10
Sherwood Forest NHS Foundation Trust	Both	6
Kettering General Hospital NHS Foundation Trust	Both	5
Cambridgeshire University Hospitals NHS Foundation Trust	Governance	4
Stockport NHS Foundation Trust	Governance	2
Rotherham NHS Foundation Trust	Finance	2

Source: National Audit Office analysis of Monitor data

The foundation trust pipeline

3.16 **Figure 21** shows how strategic health authorities assessed the risk of NHS trusts meeting, or failing to meet, the schedule they had set for achieving foundation trust status. The number with red ratings doubled between the end of March 2012 and the end of March 2013, and the numbers with green or amber-green ratings fell markedly. 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, in 2012-13, the risk increased substantially that NHS trusts will not maintain the trajectory to foundation trust status they have planned. The risks are greatest among acute trusts.

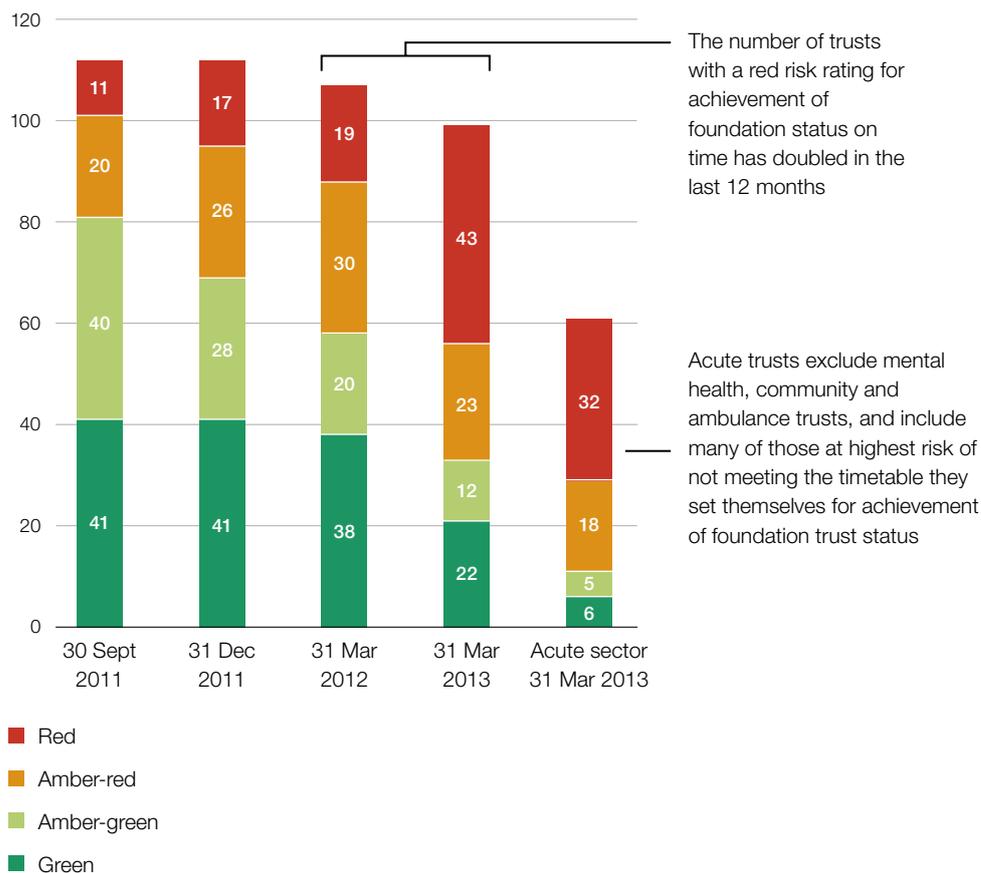
3.17 The National Audit Office reported in October 2011 on *Achievement of foundation trust status by NHS hospital trusts*, and concluded then that there were at least 20 trusts facing such substantial problems that they have recognised they are not financially or clinically viable in their current form.¹³ There are 32 acute trusts rated red and 18 rated amber-red. Among these are a number that will be unable to achieve foundation trust status in their current form.

¹³ Comptroller and Auditor General, *Achievement of foundation trust status by NHS hospital trusts*, Session 2010–2012, HC 1516, National Audit Office, October 2011.

Figure 21

Strategic health authority risk ratings of NHS trusts' progress towards foundation trust status, 2011 to 2013

Number of trusts



Source: Department of Health

Part Four

Local health economies

4.1 This part of the update report combines data for commissioners and providers, and presents this graphically to show the variation between local health economies. Viewed this way, there are some areas of the country that face particular challenges. In some places, for example the Cambridgeshire and Peterborough cluster, or the North East London cluster, difficulties appearing in the cluster maps are linked to financial challenges facing one or two hospital trusts.

4.2 The data should be viewed as indicative rather than definitive but, taken together, the maps suggest that the financial position for a number of clusters was slightly stronger at the end of 2012-13 than it was at the end of 2011-12. However, the maps also show that without local non-recurrent support, the financial environment in these clusters may have been much more difficult.

Regional variations between local health economies

4.3 **Figure 22** compares the financial strength of commissioners (strategic health authorities and PCTs) and providers (NHS trusts and NHS foundation trusts), analysed by PCT cluster, in 2012-13 and 2011-12.

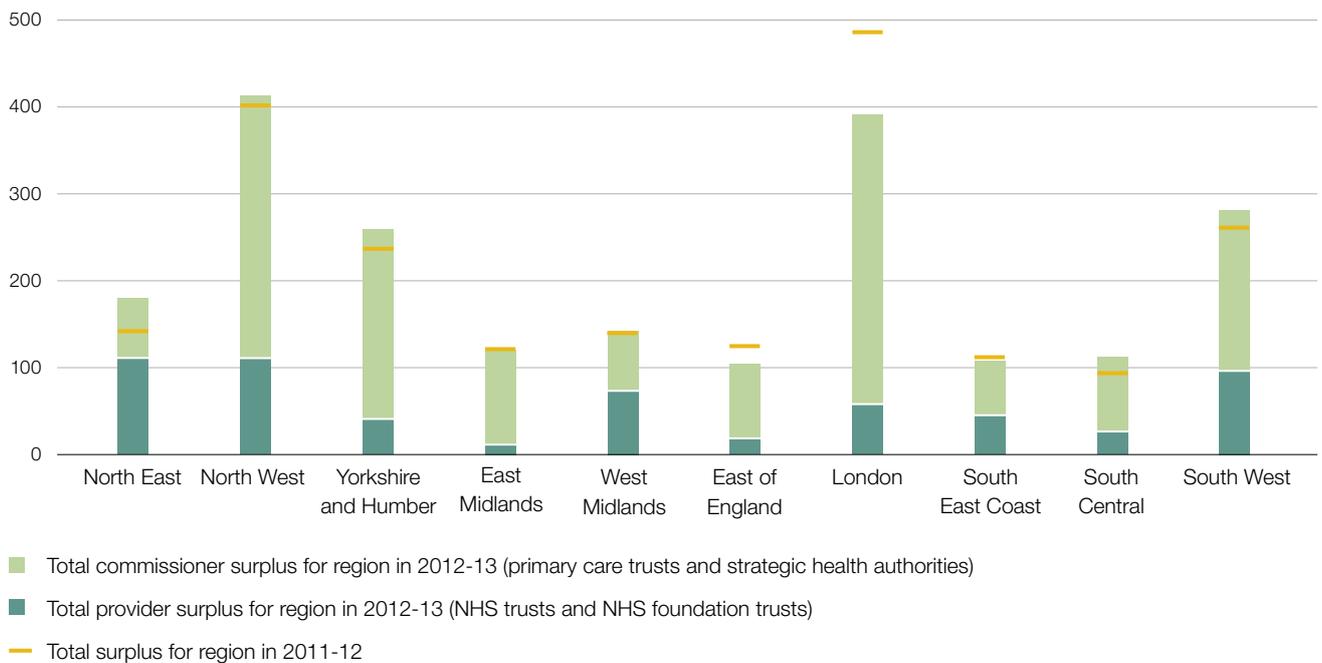
4.4 There are very different patterns in different parts of the country, both when comparing the two years, and when looking at the balance of funds held by commissioners and providers. This is likely to be affected by the proportion of trusts with foundation status, and the way in which strategic health authorities and PCTs managed funds.

4.5 Changes are most marked in London, where provider surpluses have fallen substantially, but PCT surpluses rose in each of the last three years. The total surplus in London for 2012-13 was £333 million in PCTs and strategic health authorities, and £58 million in NHS trusts and NHS foundation trusts.

Figure 22

Surpluses of trusts and PCTs by region, 2012-13 compared with 2011-12

Total surplus (£m)



Source: National Audit Office analysis of Department of Health and Monitor data

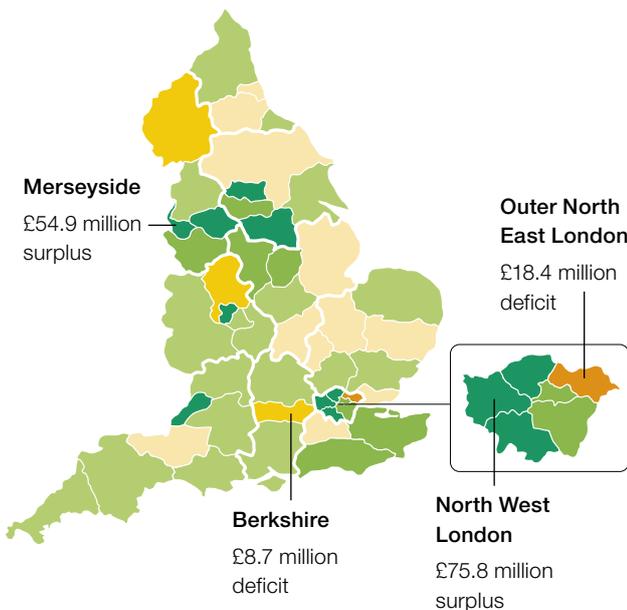
Financial performance within clusters

4.6 **Figure 23** shows the combined financial performance of PCTs, NHS trusts and NHS foundation trusts, analysed by cluster. This map includes any non-recurrent additional funding for strategic change and financial support. The maps are labelled with the highest and lowest performing clusters in London and nationally. The maps highlight some clear contrasts. For example, the West London cluster has been consistently in surplus, and Outer North East London persistently one of the clusters with the highest deficit. The Cambridgeshire and Peterborough cluster had the second highest deficit in 2011-12 and the highest deficit in 2012-13, mainly because of difficulties in Peterborough and Stamford NHS Foundation Trust.¹⁴

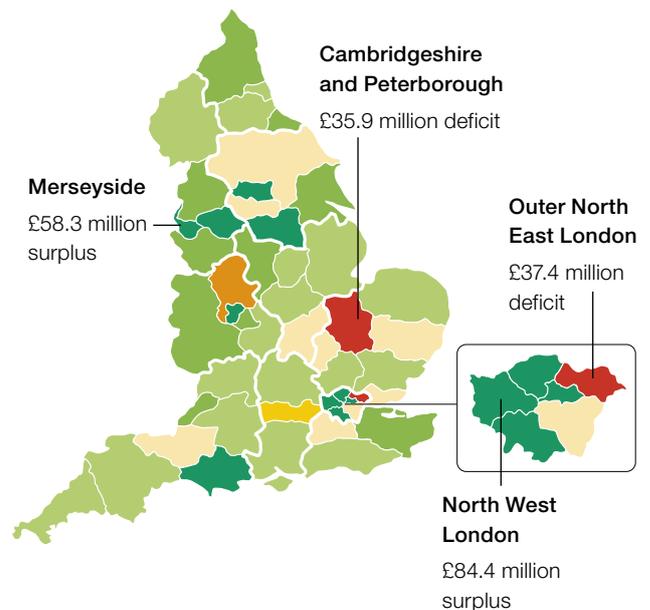
Figure 23

Financial performance of trusts and commissioners by PCT cluster, including support

Q4 2010-11



Q4 2011-12



- more than £30 million surplus
- £20 million to £30 million surplus
- £10 million to £20 million surplus
- £0 million to £10 million surplus
- £10 million to £0 million deficit
- £20 million to £10 million deficit
- more than £20 million deficit

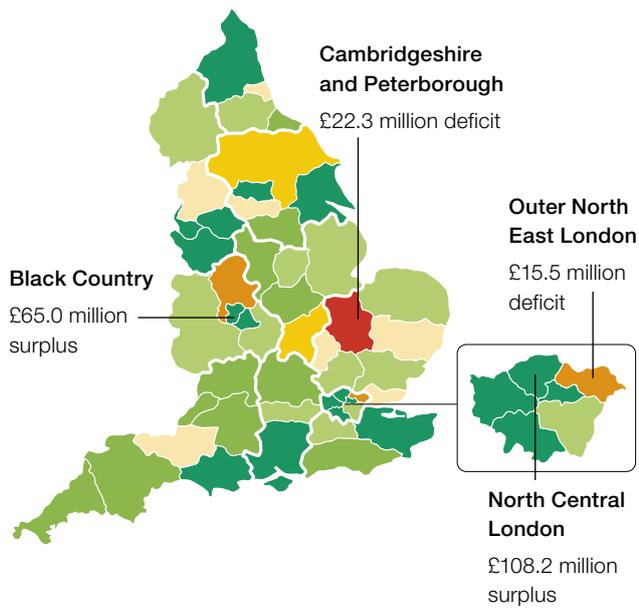
NOTE

1 The data in these maps exclude ambulance trusts and NHS Direct.

Source: National Audit Office analysis of Department of Health and Monitor data

14 Comptroller and Auditor General, *Peterborough and Stamford Hospitals NHS Foundation Trust*, Session 2012-13, HC 658, National Audit Office, November 2012.

Q4 2012-13

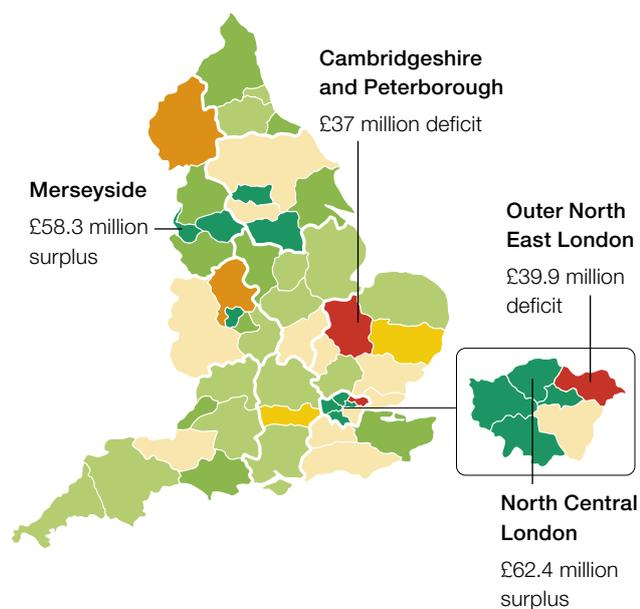


4.7 Figure 24 shows the possible financial performance of NHS bodies by cluster, excluding income from non-recurrent support. This has the effect of moving some clusters, such as Cumbria, Northampton and Milton Keynes, and Inner North East London, from a net surplus position to a possible net deficit.

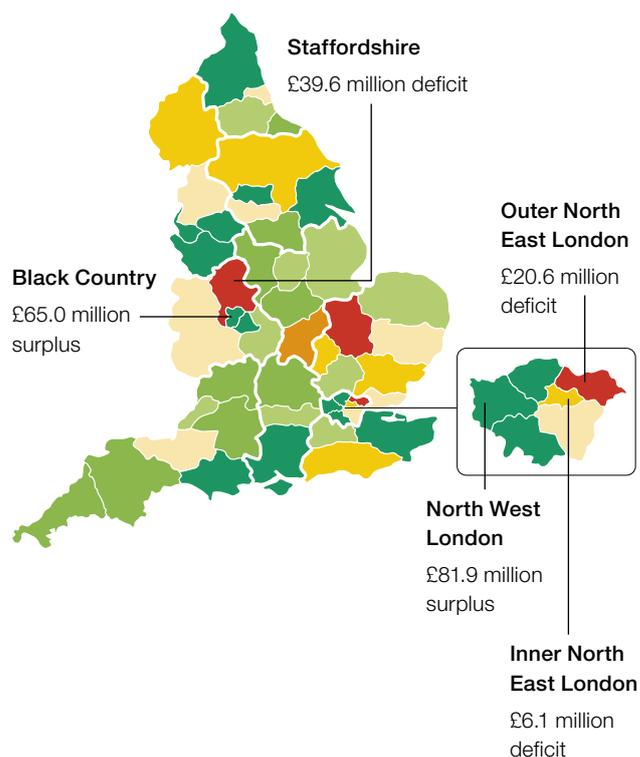
Figure 24

Financial performance of trusts and commissioners by PCT cluster, excluding support

Q4 2011-12



Q4 2012-13



- more than £30 million surplus
- £20 million to £30 million surplus
- £10 million to £20 million surplus
- £0 million to £10 million surplus
- £10 million to £0 million deficit
- £20 million to £10 million deficit
- more than £20 million deficit

NOTES

- 1 The data in these maps exclude ambulance trusts and NHS Direct.
- 2 We did not analyse the financial performance of PCT clusters excluding additional support in 2010-11.
- 3 These maps exclude non-recurrent support that strategic health authorities gave to PCTs. No adjustment is necessary for non-recurrent support that was given from one PCT to another within the same cluster.

Source: National Audit Office analysis of Department of Health and Monitor data



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