Audit Summary Report

July 2005

Public Interest Report

Hampshire and Isle of Wight Strategic Health Authority

Audit 2004/2005

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Introduction

1 This report on the financial position of the Hampshire and Isle of Wight Strategic Health Authority economy is issued in the public interest under section 8 of the Audit Commission Act 1998. This section of the Act requires the external auditor to consider whether, in the public interest, there should be a report on any significant matter coming to his or her attention.

2 I have been prompted to issue this public report by:

- the worsening financial position in the Hampshire and Isle of Wight health economy;
- the need to make my views on the causes and consequences of the financial position clear as it has been the subject of much media interest;
- the fact that the actions so far taken by the Strategic Health Authority have not been sufficient to improve the situation; and
- to urge the Authority to take the actions which I believe now need to be taken.

The health economy's financial position has worsened in 2004/05

3 All trusts have statutory duties to contain their expenditure within their income. For primary care trusts, this must be achieved on an annual basis. Hospital and other trusts have slightly more flexibility as their statutory duty contains the phrase 'taking one year with another'. This is generally interpreted, within the NHS, to mean that a trust should break even over three years which may, in exceptional circumstances and with the agreement of the strategic health authority, be extended to five-years.

4 Whilst the Strategic Health Authority has achieved all its own financial targets since it was established three years ago, this has not been the case for the whole Hampshire and Isle of Wight health economy. The economy incurred a small deficit of £1.1 million in 2002/03 with just one trust reporting a deficit. In 2003/04 the total deficit for the economy was £9.2 million and, of the 17 individual bodies in the economy, three PCTs and two trusts reported in year deficits.

5 Initial savings and recovery plans across the economy totalled £134.5 million in 2004/05. The economy managed to deliver £112 million of these savings; nevertheless, the un-audited accounts show that the economy has incurred a deficit of £39.2 million for 2004/05. Had the Authority not secured a one-off waiver of £19 million in revenue payments for the year the deficit could have been as high as £58 million. This represents a considerable deterioration over the previous year. The Hampshire and Isle of Wight economy's deficit is now amongst the highest in England. Eight of the ten PCTs and two of the seven trusts in the economy are, this year, reporting deficits. One trust has now reached the end of its third year without clearing its accumulated deficit and has had to seek the approval of the Strategic Health Authority to extend its break even period to five years.

6 Future years threaten to be equally difficult financially. Although the local health economy will continue to experience significant growth in income (around 9 per cent in 2006/07 and 2007/08) financial balance may be increasingly difficult to achieve. The recovery plans for the whole of the Hampshire and the Isle of Wight economy in 2005/06 total £147 million. Even if the economy achieves this level of savings in 2005/06, three PCTs and two trusts are still predicting that they will not be able to break even, with a deficit between them of £39.4 million. These trusts have now been instructed to breakeven as part of revised policy guidance issued by the Authority. I have yet to see the plans setting out how the five trusts will achieve breakeven.

Why is the health economy in deficit and why does it matter?

7 The largest deficits were reported by Southampton University Hospital Trust and New Forest PCT and I am discussing their individual positions with them. However, the deficits are now growing in other parts of the economy and there are, in my view, a number of common contributory factors:

- trusts and PCTs have faced significant cost pressures from national initiatives such as the introduction of the new consultant and GP contracts which the economy estimates has cost an additional £22 million.
- some individual organisations within the economy were slow to accept ownership for the growing deficits and therefore to take the recovery action which was necessary to turn the situation around;
- the Strategic Health Authority's initiative to refocus the leadership at PCTs was aimed at strengthening their management capacity in the longer-term, In fact, in the short-term it weakened it and deflected attention away from delivery of the recovery plans;
- although the individual recovery plans were approved by their respective Boards and by the Strategic Health Authority, many contained schemes for which there was only a title with no supporting detail on how the savings would be made or who was to be held to account for their delivery. In addition, the plans of neighbouring trusts and PCTs contained contradictory items for example trusts assuming increased income from PCTs and PCTs assuming decreased expenditure with trusts. It was therefore clear that the headline total of the combined plans would not be delivered;
- the Strategic Health Authority developed a number of initiatives to lead the economy back into balance but it was not always clear what the initiatives were intended to achieve and when. The various initiatives have not always had the commitment of the rest of the economy and they have not been brought together into one overall coherent financial strategy; and
- financial recovery will not be achieved by individual bodies working alone. Greater partnership working between trusts and PCTs will be required. Despite the Authority's encouragement to date, partnership working between health bodies in the economy is only now starting to happen.

8 For all these reasons, the underlying problem of activity outstripping resources has not been addressed.

9 Ultimately, the financial situation will affect the economy's ability to deliver the best possible services for its patients. There are signs that this is already starting to happen:

- despite the financial deficit, health bodies in Hampshire and the Isle of Wight had enjoyed some success in achieving waiting list targets set by the Department of Health. A number of trusts have held three star ratings in the Healthcare Commission's assessment system. However, in 2003/04 several of the economy's trusts and PCTs lost stars because of their financial situation and because they underachieved targets for waiting times and access to a GP. The results for 2004/05 have not yet been published;
- some trusts and PCTs have had to resort to emergency closures to curtail expenditure. Such closures should happen as part of planned changes in service delivery rather than as emergency measures at the year-end;
- one of the common short term measures used in the past to balance expenditure and income was to use capital to revenue transfers. In some bodies this has contributed to a considerable backlog in refurbishments which may increasingly affect the patient experience; and
- three of the economy's acute trusts were applying to be Foundation Trusts which means they would receive less monitoring, have greater financial freedoms, access to more capital and greater community involvement. They all withdrew because their financial positions made it unlikely that an FT application would be approved.

Auditors have raised their concerns over the economy's finances on a number of occasions

10 External auditors have expressed their concerns over the financial position of most of the trusts and PCTs within the health economy over the last few years in their annual audit letters and in specific reports on financial management and recovery planning. My predecessor and I have also commented on the whole health economy's financial position in various reports to the Strategic Health Authority.

11 Strategic health authorities were created by the Government in 2002 to manage the local NHS on behalf of the Department of Health (DoH). From that date, all organisations locally - PCTs and trusts - became part of a single structure and were held to account through their strategic health authority. The intention was to support the creation of shared strategies, facilitating working together and whole systems approaches. The three key functions of the authorities are:

- creating a coherent strategic framework;
- agreeing annual performance agreements and performance management of the health economy; and
- building capacity and supporting performance improvement.

12 Our previous reports to the Hampshire and Isle of Wight Strategic Health Authority have shown that there was more that it could do in these areas to manage the local NHS, generally, and financial recovery in particular.

13 In September 2003 my predecessor commented in his annual audit letter to the Strategic Health Authority that although the overall economy deficit for 2002/03 was considerably less than had been anticipated, and was only £1.1 million, this was partly achieved through a variety of one off measures such as capital to revenue transfers, property sales and year end support. The underlying deficit was £14 million. He remained concerned at the underlying financial position and said that he would report more fully to a future meeting of the Audit and Governance Committee.

14 The resultant financial health review was reported to the Authority in February 2004. This report was also widely discussed at individual trusts and PCTs within Hampshire and the Isle of Wight. The report concluded that the deficits in the economy represented unachieved elements of the very ambitious cost improvement programmes as well as a range of in year cost pressures. The recovery plans included a number of one off features which, in my predecessor's view, would not guarantee sustainable financial balance. He urged the health economy to focus its efforts on:

- developing radical and significant plans to achieve sustainable financial balance over the longer-term;
- establishing stronger partnership arrangements in developing recovery plans;
- developing more robust arrangements for assessing and validating recovery plans; and
- demonstrating more clearly the financial implications of the 'Healthfit' project (the purpose of this project was to redesign clinical services in a number of key areas across the health economy).

15 In June 2004 my predecessor prepared a summary of the messages for the Strategic Health Authority from auditors' work at individual health bodies on implementing the NHS plan and preparing local delivery plans. This report reiterated the messages from the February 2004 financial health review and concluded that the underlying problem of activity outstripping resources had not been addressed. The level of modernisation which was being undertaken in the health economy as a whole was not sufficient to increase capacity to meet targets. My predecessor concluded that the Authority needed to provide stronger strategic leadership in a number of areas all central to the economy's ability to achieve sustainable financial balance over the longer term:

- financial planning - to help identify and implement measures that will achieve significant and recurrent financial savings across the whole health economy;
- realism of local delivery plans - to ensure that they reflect what local trusts and PCTs think is actually achievable locally based on their past performance, financial position and ability to deliver, where necessary, changes in service delivery; and
- modernisation - to identify and implement modernisation of sufficient scale across the whole health economy to deliver long-term financial stability and NHS plan priorities.

The Authority has taken action but there are still problems to address

Financial recovery planning

16 The Authority has long recognised the financial problems facing local NHS bodies. Indeed one of the Authority's key business objectives relates to the achievement of financial balance in the local health economy. The Director of Finance reports fully each month the actual and projected financial position of each NHS organisation to the Authority's Board and the Department of Health (DoH).

17 The Authority has undertaken a number of actions in fulfilling its responsibility for financial performance management. These include:

- providing further guidance and support in the development of financial recovery plans;
- undertaking a series of financial review meetings with organisations in deficit to identify opportunities for improvement; and
- commissioning external reviews of the financial position at the most financially challenged organisations including Southampton University Hospitals NHS Trust and Hampshire Ambulance Trust.

18 The Authority has placed particular emphasis on the assessment and validation of financial recovery plans. It has encouraged the use of a standard template and individual body's recovery plans require sign off by the Authority's finance team.

19 External auditors have recently completed reviews of individual recovery plans and processes at all PCTs and trusts in the economy. Auditors have noted, in 2004/05, that the recovery plans of individual organisations were not always agreed early enough to have maximum impact in the year. They were not always supported by detailed schemes or aligned with those of their neighbours. Auditors have also urged many individual PCTs and trusts to undertake further benchmarking of their costs and healthcare activity to help identify opportunities for cost saving and to help focus service redesign initiatives.

20 Auditors' work on commissioning arrangements at PCTs has shown that sometimes there are inadequate links between their locality delivery agreements, local delivery plans, commissioning strategies and recovery plans.

21 The plans that I have seen so far do not convince me that all the local NHS bodies will be able to achieve their statutory financial duties over the next few years. It is clear from the size of the deficit facing NHS organisations in Hampshire and the Isle of Wight that the traditional approach of identifying savings separately within individual organisations will not be sufficient to recover the deficit. This will require a higher degree of partnership working between organisations than has previously been achieved.

22 The increasing income and expenditure deficits within the economy are now being accompanied by growing cash shortfalls and there is a danger that individual bodies will find it increasingly difficult to pay their bills.

23 In early 2004/05, the Strategic Health Authority Board was informed that £16 million in planned support had been identified to help PCTs manage their financial risks and reach breakeven targets. In June 2005, the Board was informed that, in addition, £23 million of planned revenue assistance to trusts had been confirmed and that a further £8 million of support had been identified. The method to be used for distribution of the original £16 million, and the resultant allocation between PCTs, was communicated to all Directors of Finance in the economy in July 2004. However, I have not been provided with any evidence that the method for distribution of the £16 million or the other two sums had been approved by the Authority Board nor that the actual distribution between individual trusts and PCTs was subsequently reported to the Board.

Wider performance management

24 The Authority has also established number of initiatives aimed at focusing the economy's efforts and resources. These are summarised in the following table.

Table 1 Strategic Health Authority Initiatives

The Authority has established a number of initiatives to focus the health economy's efforts and resources

Initiative	Authority's aim from the initiative
Healthfit 2002/04	To develop an agreed strategic framework for the development of sustainable, affordable and efficient health services in the economy, which meet the health care needs of the population and deliver the NHS plan. The HealthFit programme focused on five crucial clinical services: maternity; children; emergency; older people; cancer.
Beyond Healthfit 2004	In March 2004, the SHA evaluated progress against the HealthFit programme. The SHA decided that a broader strategic approach was required, since HealthFit was being perceived as purely a service configuration project and progress within the localities was slow. This led to the Beyond HealthFit Programme, with four streams: process improvement; service transformation; refocusing leadership; financial sustainability.

Initiative	Authority's aim from the initiative
Collaborative Programmes 2005	In March 2005 the SHA decided that the ongoing work from the Beyond HealthFit Programme would become part of the mainstream business for the SHA and localities. Continuing work streams have been absorbed into the SHA's Business Programme for 2005/06. The focus is now on implementation of six economy-wide Collaborative Programmes that require a high level of collaboration to succeed and will contribute significantly to the economy's financial situation: long-term conditions; unscheduled care; diagnostics; continuing care; medicines management; back office services
Workforce reduction 2005	To reduce the workforce to affordable levels
Bed reduction 2005	To reduce capacity to affordable levels
Modernisation Agency 10 High impact changes	To achieve best practice in the key service modernisation areas

Authority papers

25 The number of schemes introduced by the Authority has led to an accusation from the health economy of 'initiative overload'. There is confusion about the links between the various initiatives and the responsibility for delivery. Despite the Authority's previous efforts, it has found it difficult to gain the full commitment of all the PCTs and trusts. This will be vital if the Authority's plans are to succeed.

26 The 'Beyond Healthfit' programme and associated work streams have now been in existence for almost a year. I recognise that progress is being made in a number of areas, such as surgical services in the Southampton area and the development of new organisational structures on the Isle of Wight, but I am concerned that in many other cases there is still a lack of specific action plans and clear objectives.

Recommendations

27 Although the Authority has responded to our earlier reports, the actions taken by the Authority and the other health bodies in Hampshire and the Isle of Wight, so far, have not been successful in reducing the financial deficit. In fact, the overall deficit reported in the un-audited accounts for the economy in 2004/05 is more than four times the size it was last year. Had the Authority not secured the one-off waiver in revenue payments for the year, the overall deficit could have been as high as £58 million - over six times the size it was last year.

28 My report is based on the financial management of the health economy during 2004/05. There are clearly a number of challenges facing the economy but I believe there is more that the Strategic Health Authority can do in 2005/06 to set the strategic direction for financial recovery, change its approach to performance management and support the economy in making the necessary changes.

29 I have summarised my recommendations to the Authority under its three key functions.

Recommendations	
Clarify the strategic framework	
R1	*The Authority should develop a single, integrated plan to show how the various initiatives contribute to the achievement of long term, sustainable balance.*
R2	*For each initiative the Authority should clearly identify the management responsibilities, the objectives and expected outcomes, a timetable for delivery, key milestones and dates for reporting progress to the Board.*
R3	*The Authority needs to make further efforts to gain the commitment of the rest of the health economy if its plans are to be implemented.*
R4	*The Authority should facilitate the development of a long term cash plan for the economy.*
R5	*The Authority Board should approve the criteria to be used for providing assistance to those bodies in financial difficulty and should receive a report at the year end showing the actual distribution of assistance between individual trusts and PCTs. The criteria and the actual distribution should also be clearly communicated to the economy.*

Recommendations	
Improve performance management of the health economy	
R6	*The Authority needs to focus its performance review more on the substance of detailed recovery programmes to ensure that the headlines are supported by detailed schemes with responsible officers, risk assessments, milestones and targets and that adjoining PCT and trust plans make sense when put together.*
R7	*Whilst it is the primary responsibility of PCTs to ensure that there are adequate links between their locality delivery agreements, local delivery plans, commissioning strategies and recovery plans, the Authority, through its performance management function, should also ensure these links are made.*
R8	*In the longer-term, the Authority needs to encourage further the development of joint recovery plans which do not compromise organisations' individual accountabilities.*
Support performance improvement	
R9	*The Authority should help individual bodies undertake benchmarking and transfer good practice from one body to another.*
R10	*The Authority should facilitate the undertaking of a much wider and more rigorous review of the health services to be provided across the economy.*
R11	*The Authority needs to continue to facilitate more constructive partnership working between local NHS bodies.*