The Explanatory Report of the Comptroller and Auditor General to the Houses of Parliament

Introduction

1. In December 2015, I reported on the 'Sustainability and financial performance of acute hospital trusts', which highlighted the severe, and worse than expected, decline in the financial position in provider sector finances. As I have previously reported, this trend is not sustainable. The financial sustainability of the provider sector should be assessed against the wider backdrop of the broader health and social care sector financial position and the need to close the gap between available resources and patient needs.

2. I concluded that the Department and its arm's-length-bodies had yet to develop and implement a coherent plan to close the gap between resources and patients' needs. The Committee of Public Accounts (PAC) reported its concern about the absence of a plan in its report on this topic in March 2016.

3. I found that the Department, NHS England, Monitor and the NHS Trust Development Authority (NHS TDA) needed to take a more holistic, coordinated approach to tackling trusts' persistent financial problems and move beyond quick fixes to control trusts' spending growth. Until there is a clear pathway for trusts to get back to financial stability, we could not be confident that value for money, defined as financial and service sustainability, will be achieved.

4. A detailed plan should set out its objectives clearly. It should also set out the benefits to be realised; individual responsibilities for each part of the plan (this is especially important where multiple bodies are involved); and milestones, and checkpoints at which the progress towards objectives can be assessed, and corrective action taken where necessary.

5. The absence of a detailed longer term plan, makes it more likely that plans will be driven by the annual accountability cycle. This can lead to short-term decision making, and a failure to invest in the future, as organisational effort and attention are spent on ensuring that annual control totals are met.

6. NHS England published in May 2016 a *Recap briefing for the Health Select Committee on technical modelling and scenarios*[1]. This sets out the efficiencies required by the Spending Review and the initiatives by which they will be realised. It notes that that £7bn will be delivered nationally, leaving £15 billion to be sourced locally. As set out later in this report, the primary vehicle for detailed planning for local implementation is the Sustainability and Transformation Planning process currently underway.

7. Having now completed my financial audits of the 2015-16 Department of Health group accounts, including the NHS England financial statements, I consider it appropriate to provide an overview of the actions being taken to address the challenges. This report focuses on NHS England. I have reported separately on the Department of Health's resource accounts.

8. NHS England is responsible for spending more than £100 billion in funds and holding organisations to account for spending this money effectively for patients and efficiently for the tax payer. A lot of the work involves the commissioning of health care services in England. NHS England commission the contracts for GPs, pharmacists, and dentists (Primary Care) and support local health services that are led by groups of GPs called Clinical Commissioning Groups (CCGs). CCGs plan and pay for local services such as hospitals and ambulance services.

[1] https://www.england.nhs.uk/wp-content/uploads/2016/05/fyfv-tech-note-090516.pdf

Structure of this report

9. Drawing on the findings of my audit of NHS England's 2015-16 financial statements the purpose of this report is to:

    - Set out the pressures facing NHS England;
    - Set out how NHS England has addressed these pressures in year;
    - Set out assurances gained from my audit work, and what this tells me about the capacity and capability of NHS England to address the issues it faces;
    - Set out NHS England's plan to address the challenges it faces, particularly in relation financial sustainability; and
    - Set out my future work and concerns to be addressed, if NHS England is to play its part in ensuring that the National Health Service successfully addresses the challenges it faces.

Pressures facing NHS England

10. As acknowledged in the NHS England's Performance Report, and the Five Year Forward View, The National Health Service is facing three challenges:

    - *The health and wellbeing gap:* if the nation fails to get serious about prevention then recent progress in healthy life expectancies will stall, health inequalities will widen, and our ability to fund beneficial new treatments will be crowded out by the need to spend billions of pounds on wholly avoidable illness.

    - *The care and quality gap*: unless the NHS reshapes care delivery, harnesses technology, and drives down variations in quality and safety of care, then patients' changing needs will go unmet, people will be harmed who should have been cured, and unacceptable variations in outcomes will persist.

    - *The funding and efficiency gap:* if the NHS fails to match reasonable funding levels with wide-ranging and sometimes controversial system efficiencies, the result will be some combination of worse services, fewer staff, deficits, and restrictions on new treatments.

How NHS England has addressed these pressures in-year

11. As noted in the Chief Financial Officer's Report, NHS England had a revenue resource limit of £101,708 million in 2015-16. Throughout 2015-16, NHS England has sought to maximise the contribution of the commissioning sector to the overall Department position, in the light of the scale of provider deficits. For 2015-16:

    - The CCGs' budget was £72.548 billion
    - The Primary Care budget was £10.395 billion
    - The Specialised Commissioning budget was £14.308 billion
    - The Other Direct Commissioning budget, including Cancer Drugs Fund, Public Health, Justice and Armed Forces was £2.103 billion; and
    - The Central Programmes budget was £1.766 billion.

12. Full details of NHS England's financial performance are set out in the Chief Financial Officer's Report. This section of the Annual Report notes that "*NHS England has generated an underspend of £599m (0.6% of plan) against the core performance metric. It should be noted, however, that the major contributions to this underspend have been either non-recurrent in nature*

or have been adjusted for budget setting for 2016/17 to maximise funding available for front-line services and primary care transformation in a year of exceptional challenge for the NHS."

13. NHS England recognises that despite their small surplus in 2015-16, next year will continue to be a challenge; and many of the mechanisms through which this year's budget was achieved will simply not be available in 2016-17.

Financial Audit in 2015-16

14. My audit of the financial statements was conducted in accordance with International Auditing Standards (ISAs). Among other things, these require me to identify significant risks, which are risks of material misstatement. Identification of such risks does not suggest that such risks will inevitably occur, but that the risk is sufficiently important, that I need to carry out specific work, to gain assurance that these risks have not impacted on the truth and fairness of the financial statements, or any of the other matters on which I am required to give an opinion.

15. The first significant risk is a presumed risk for all audits; under ISA (UK and Ireland) 240 *The auditor's responsibilities relating to fraud in an audit of financial statements*. This standard requires me to consider the risk of management override of controls. The standard expects that auditors will consider significant or unusual transactions and carry out journals testing, based on the identification of risk characteristics in the journal population. Finally auditors consider and test management estimates and judgements, in the light of this risk of management override of controls. I carried out my planned testing and found no significant issues.

16. I also identified risks in respect of the implementation and accounting for the Better Care Fund; the introduction of primary care co-commissioning; and the outsourcing of primary care services. My audit did not identify any material issues in respect of these risks.

17. These financial statements include the consolidated results of NHS England and the 209 CCGs. My assurance over the figures derived from the CCG financial statements comes from the work of component auditors. In accordance with Auditing Standards, I issue group instructions, which include details on the significant risks that I have identified. I have asked their auditors to report, by exception, any issues in relation to these risks. I have not received reports from component auditors on any issues arising from these risks.

18. The assurances for my audit came mainly from substantive testing, rather than reliance on systems and controls. This is a result of the maturity of the assurances available, as reflected in the Governance Statement, and Head of Internal Audit Opinion. In summary there was a lack of reliable, timely assurances across the system (CCGs; local government and other providers; third party providers).

19. As noted in the Governance Statement, NHS England has set up a Governance and Assurance Project. This was in part designed to address the concerns that I raised in my audit completion report in June 2015, and was launched in January 2016 and runs until March 2017. There is a full plan of work including enhancing the governance manual and a number of key frameworks and controls, supporting a systematic approach to assurance at all levels of the organisation. Further work will also be undertaken to strengthen assurance provided by NHS England's partners providing services and to introduce a programme management framework. Once processes are in place, NHS England will need to embed them and help the necessary culture develop, so that the provision of such assurances becomes second nature.

NHS England plans to address financial sustainability

20. NHS England set out their approach to future financial sustainability in the Annual Report. This again states that the level of efficiencies required is £22 billion, noting that £7bn will be delivered nationally, leaving £15 billion to be sourced locally. NHS England recognise the need for bodies across the health and social care system to collaborate, at both local and national level.

21. The Sustainability and Transformation Plans, being drawn up by 44 geographical footprints, are the mechanism through which plans will be delivered at health economy level. These will include investments in prevention; new models of care, to moderate the levels of activity growth; use of the RightCare programme to ensure best value; and a programme of operational efficiency improvement for providers, including through their response to the Carter Review. The detail of these plans is not yet available, although I understand that they will consider not just the next financial year, but the next 5 years.

22. Planning on a geographical footprint, which does not have a statutory basis, will mean that accountability arrangements and assurance requirements become even more complex. As already noted, assurance arrangements are not yet fully developed within the NHS England Group. The need for an overarching long term plan is therefore even more important. An agreed framework, within which everyone is operating, would aid consistent, aligned decision-making across a complex and evolving landscape.

23. The required pace and scale of change make ensuring that suitable assurance and accountability arrangements are in place more important, but reduces the time available to put these in place.

Conclusion and future audit work

24. I have noted the focus of the Department of Health and national health care bodies on addressing the immediate issue of financial outturn for 2015-16. This is set out in more detail in my report on the Department of Health resource account. As I have reported previously, the NHS faces an unprecedented financial challenge which requires long term strategic measures to address. The Department and its national bodies have taken steps toward developing longer term strategic plans over the period of the current Parliament. I will return to these challenges, reviewing progress in developing and implementing these plans in my next report in the autumn.

25. A viable plan to deliver the £22bn savings needed by 2020-21 could be achieved if the Department and its Arms Length Bodies improved transparency, set clear evidence-based targets and priorities. Improved accountability frameworks and better assurance by oversight bodies could create a stronger foundation for financial sustainability. Better monitoring of what works could support a faster pace of change.

26. As noted above, the landscape in which NHS England operates is becoming more complex. The nature of some of the relationships between the different components of the system is also changing. That makes evaluation against a clearly defined plan even more important. NHS England have recognised this need in their Annual Report, particularly in respect of the Vanguards. I will return to this, as part of my value for money work on financial sustainability in 2016-17.