"Ensuring a viable financial future for healthcare providers is vital if the public are to have confidence in the delivery of their local service. Yet we still do not have the critical details of how the new system introduced by the NHS reforms will work so that services remain available to patients in their locality." **Summary**

Conclusions and Recommendations

1. **The overall financial surplus of £2.1 billion reported by NHS bodies in England in 2011-12 disguises the fact that there are a significant minority of organisations in financial difficulties. On top of that, the NHS faces significant challenges in making £20 billion of efficiency savings at the same time as the system is reformed under the Health and Social Care Act 2012. Many crucial details of the new system have not yet been determined. The recommendations below highlight the actions the Department and Monitor need to take to improve the financial resilience of the NHS.**

2. **The Department and Monitor were unable to explain how they expect proposed "risk pools" to work.**

Currently PCTs and SHAs support some trusts through providing funding over and above amounts in contracts, but neither the amount of additional funding nor the reasons for it are transparent. In future, contributions to "risk pools" (money which might be levied on all NHS bodies to support failing trusts or commissioners) will add to the already difficult challenges facing trusts. This top-slicing of the NHS budgets risks destabilising otherwise healthy organisations, and creating inequities between those contributing and those in receipt of support. The Department and Monitor should clarify how "risk pools" will work from April 2013, and how they will manage the risk of creating an uneven playing field.

3. **The department has not clearly explained the circumstances in which it would apply the failure regime to hospital trusts.**

The fundamental objective when putting a trust into special administration is to secure provision of essential services, with insolvency the final resort. So far, South London Healthcare is the only trust to have been put into a special administration regime. There are a growing number of NHS trusts and NHS foundation trusts in financial difficulty, but it is not clear what will trigger them being placed in special administration, or exactly how the process will work including the role of Ministers. At present it seems as if the Department is inventing rules and processes on the hoof rather than anticipating problems and establishing risk protocols. The Department, Monitor and the NHS Commissioning Board must set out clear principles for intervention that explain to trusts and the public the circumstances in which they would implement the special administration regime, and what the consequences would be—including whether an insolvent trust would be allowed to fail and how Ministerial intervention will work.

4. **There is a risk that, as commissioning becomes more decentralised, local commissioners will make shortterm and narrowly focused decisions rather than taking a strategic joined up approach.**

The Department could not explain what will ensure Clinical Commissioning Groups (CCGs) work together to achieve financial and service sustainability in local health economies. The NHS Commissioning Board should set out how they will manage strategic commissioning from April 2013, and how they will promote commissioning decisions which meets patient needs across a local health economy.

5. **Liabilities under PFI contracts create additional problems and cause some trusts to remain in deficit. A number of trusts in financial difficulty have PFI contracts with fixed annual charges that are so high they cannot be financially viable.**

PFI payments are one of the first calls on an NHS trust's resources. Yet individual trusts are in a weak position when seeking to renegotiate such contracts because PFI contractors have the security of a Deed of Safeguard underwritten by the Department that guarantees payments. So trusts are locked into paying unaffordably high PFI payments whilst facing a very weak position on renegotiating the contracts. The Department ultimately underwrites the payments but it is unclear how the Department will have the money to meet this commitment under the arrangements when most NHS monies will be passed to the commissioning bodies. The Department should report back to the Committee on whether it has achieved 5% savings on annual unitary charges for PFI projects as the Treasury Pilot concluded were achievable, and whether there has been any adverse impact on services.

6. **Some service reconfiguration within the NHS to reduce costs is inevitable but the relevant cost and outcome data to inform public debate is not available either to CCG's or members of the public.**

Public debate about access to services and potential service reconfiguration needs to be informed by complete and easily accessible data. The Department should work with the NHS Information Centre to ensure that information on costs and outcomes is easy for members of the public to access and understand.

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