

Report in the Public Interest on the Financial Standing of the Primary Care Trusts

South Huddersfield and Huddersfield Central PCTs

Audit 2005-2006

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Introduction

- 1 This report in the public interest on the financial standing of Huddersfield Central Primary Care Trust ('Central') and South Huddersfield Primary Care Trust ('South') is issued under section eight 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 The purpose of this report is to comment on the poor and deteriorating financial positions of both Primary Care Trusts (PCTs) in 2005/06, the failure of both PCTs to deliver the statutory duty to contain their expenditure within the available revenue resource limit, and the actions which are now being put in place by the PCTs to place their finances on a more stable footing in advance of the probable reorganisation of NHS organisations within the Kirklees metropolitan area later this year.
- 3 Whilst the scale and nature of the problems facing the two PCTs is somewhat different I have judged it appropriate to issue a single public interest report on the grounds that the PCTs have joint management and governance arrangements and the arrangements being put in place to resolve the financial problems are the same across both organisations. The timing of the report has been dictated by the fact that it is now clear that West Yorkshire Strategic Health Authority (SHA) will not be providing either PCT with any additional financial support in 2005/06, and that breaches of the PCTs' statutory 'break even' duty are therefore inevitable.

Background

- 4 We have been the external auditor at both PCTs since their inception in 2002. In the intervening period both organisations have experienced a deteriorating reported financial position, as the following tables show.

Table 1 South Huddersfield PCT financial performance

South has had an underlying financial deficit since 2003/04.

	2002/03 (£ million)	2003/04 (£ million)	2004/05 (£ million)	2005/06 (£ million)
Reported surplus (deficit)	0	(1.1)	0	(2.7)
Additional revenue support	0	0	1.4	0
Net position	0	(1.1)	(1.4)	(2.7)

Source: Annual accounts and PCT data

Table 2 Huddersfield Central PCT financial performance

Central's reported financial position has deteriorated significantly in 2005/06.

	2002/03 (£ million)	2003/04 (£ million)	2004/05 (£ million)	2005/06 (£ million)
Reported surplus (deficit).	0.1	0	0	(3.6)
Additional revenue support.	0.8	0.1	1.3	0
Net position	(0.7)	(0.1)	(1.3)	(3.6)

Source: Annual accounts and PCT data

- 5 Historically, the financial difficulties have been less severe at Central than in South. South's 2005/06 deficit is the culmination of a steady deterioration over several years. The District Auditor has previously exercised his powers in respect of South by issuing a qualified regularity opinion on the 2003/04 accounts. Central by contrast has met its statutory break even duty in each year prior to 2005/06, and the additional revenue support received in 2004/05 was specifically related to a delayed land sale. The significant overspend in 2005/06 primarily reflects pressures which have arisen in year (see table 3).
- 6 Successive audit letters and other audit reports (including our 2004 assessment for the SHA of the PCTs' compliance with their Establishment Orders, which led to the current joint management arrangements) have identified a range of factors which have contributed to this deteriorating position. Most fundamentally, both PCTs have demonstrated an inability to maintain the activity with their main providers within agreed limits (compounded by difficulties agreeing and signing off SLAs and a consequent need for SHA intervention to facilitate the resolution of disputes). Other factors include:
 - a short-term focus to service and financial planning, partly driven by the statutory requirement to deliver in year financial balance which the PCTs maintain has frustrated a more strategic approach to financial recovery;
 - historically, a rapid turnover especially in Director of Finance posts and a lack of capacity in the finance team; and
 - management attention being focused for an extended period on the establishment of the joint management arrangements, rather than on improving the arrangements for service and financial planning.

Financial performance in 2005/06

- 7 As tables 1 and 2 showed, South has disclosed a deficit of £2.7 million in 2005/06, and Central a deficit of £3.6 million. Table 3 shows how the overspends have arisen.

Table 3 Main elements of the PCTs' overspends in 2005/06

The deficits reflect a combination of underlying issues and in-year pressures.

	South Huddersfield £ million	Huddersfield Central £ million
Savings requirement at start of year to deliver 2005/06 budget.	(3.6)	(0.7)
Savings achieved less new pressures in year.	1.9	1.2
Overtrading with main provider.	(0.3)	(1.3)
Increased expenditure on specialist treatments.	(0.7)	(1.2)
Delay in sale of an asset.	0	(1.6)
Deficit	(2.7)	(3.6)

Source: PCT financial monitoring information

- 8 The overspends represent a breach of the PCTs' statutory duty to manage their expenditure within their allocated revenue resource limit. This breach, combined with the inability of the PCTs' management over a number of years to address the significant and long standing financial difficulties they have faced, has led me to judge that it is now appropriate to issue this public interest report.

The PCTs' response to their financial problems

- 9 In recent months the PCTs' management has taken a number of actions to respond to the financial difficulties described above. The actions taken have been informed by an external financial review undertaken by Ernst and Young. The PCTs are now committed to putting in place financial recovery plans capable of delivering recurrent financial balance by March 2007, although given the scale of the problems faced a two year timescale might be more realistic. In order to deliver this objective the PCTs have:
- established a Recovery Implementation Team tasked with rethinking the PCTs' approach to commissioning and ensuring the activity of all directorates is consistent with the objective of financial recovery;
 - contracted a firm of consultants to identify areas for potential efficiency gains of at least £800,000; and
 - employed a second firm of consultants to assist with the production of robust recovery plans.

- 10 The PCTs are nevertheless very concerned that delivery of financial balance in 2006/07 will be difficult, particularly in the light of the SHA's decision to levy 2.5 per cent of the budget from all PCTs. As at April 2006, forecasts indicated that committed expenditure exceeded available resources by £5.1 million in South and £4.8 million in Central. A range of actions have been identified to address this problem although these are not as yet sufficient to entirely resolve the problem.

Conclusions

- 11 A number of serious consequences flow from the inability of the Huddersfield PCTs to manage their finances within available resources. Both have received a qualified regularity assertion in my report on their 2005/06 statements of accounts. As a result, both will receive lower 'use of resources' scores in the Healthcare Commission's annual assessments. Looking ahead, continued financial instability could threaten to undermine the ability of the local health economy to deliver planned improvements in services, and would encumber the new Kirklees PCT with an unwelcome financial problem following the merger of the Huddersfield PCTs with North Kirklees PCT scheduled for October 2006.
- 12 The Boards of the Huddersfield PCTs now seem to have taken the necessary steps to identify the actions necessary to return to recurrent financial balance within the shortest possible timescale. Dialogue has commenced with North Kirklees PCT to maximise the prospects that the new Kirklees PCT will meet its statutory objectives for 2006/07. Both boards must ensure that those investigations are completed quickly and successfully, that the results are implemented and that the implementation plan is capable of being fulfilled despite the unavoidable instability that will flow from the national reorganisation of NHS bodies.